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AMERICA'S ECONOMIC AND SECURITY INTERESTS ON THE PACIFIC RIM: BUILDING FOR THE 21st CENTURY

HEARING

BEFORE THE

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EAST ASIAN AND PACIFIC AFFAIRS

OF THE

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AMERICA'S ECONOMIC AND SECURITY INTERESTS ON THE PACIFIC RIM: BUILDING FOR THE 21ST CENTURY

TUESDAY, FEBRUARY 14, 1989

U.S. SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Seattle, WA.

The subcommittee met at 10 a.m. in the Port of Seattle Commission Chambers, Pier 66, Hon. Brock Adams presiding.

Present: Senators Cranston and Adams.

OPENING STATEMENT OF SENATOR ADAMS

Senator ADAMS. We are waiting for Senator Cranston. His plane is on the ground. The airline had a refueling problem because they were worried about weather up and down the coast.

I do not want to hold any of you in suspense, so I thought we could start with some opening statements, and I'll open the record for those who wish to file written statements. Then, part way through the panel, when Senator Cranston arrives, we will take a break, because I want to introduce at that time—and I will, while she's in the room, to all of you—the chairman of the Port Commission, Pat Davis.

Pat, we want to thank you for your hospitality, and we hope that you will join us at the break so that we have an opportunity to chat with Senator Cranston for a moment.

Once again, thank you. Did Zeger come down with you, or has he gone back up?

Ms. DAVIS. No, he went back up.

Senator ADAMS. We will introduce the new director of the port, Zeger van Asch van Wijck; and we will do that in a few minutes.

First I'll ask unanimous consent and so order that the statements that are submitted for the record will be entered into the record after the testimony of the witnesses today. The record will remain open for 5 days for the filing of additional statements.

I am delighted, and so is Senator Cranston, to welcome the East Asian and Pacific Affairs Subcommittee of the Foreign Relations Committee to Washington State. I've served on this committee for 2 years with Senator Cranston. These hearings, which will be held during the course of this week in Los Angeles, San Francisco, and Seattle, represent the culmination of nearly a year's work. We will focus on the problems associated with trade, changing security, and political interests in the Far East.

It is appropriate for the subcommittee chaired by Senator Cranston to come to our State to discuss both our economic interests and our security interests. His State, California, as well as ours, has been the gateway to the Pacific for over a century. Commodore Perry sailed from San Francisco in 1853 to open Japan and the Asian nations to trade with the West. However, trade between the fur regions of the Columbia and China go all the way back to 1774, when Captain James Cook began trade with the Chinese.

Over the last century, many have followed Perry and Cook to the Far East, and have recognized the importance of that region to the world. As our Far Eastern friends have expanded, and particularly in the post World War II era, we have found a new economic challenge. Just as we challenged the Far East over a century ago to open to Western influences, the nations of the Pacific Rim are challenging us today to open to Eastern influences, to understand, and, as necessary to trade, to adjust to their culture and economic imperatives.

It is a very important time. That is one reason we have invited some of the panel members that we have, with political, social, and economic background. Unless we understand what is happening in a basic way, we will not be successful in individual actions, and we will wonder why it is that those actions often wither on the vine.

I think it's important that we recognize that this challenge, and what it means to our world, is paramount to all of us, and to people throughout the world. Over one-half of the world's people live in the Far East. If present trends continue, the fastest growing market in the world will be in the Pacific Rim. There will be economic prosperity in this region, equal to that of the United States.

People of the State of Washington have long recognized this. Many other parts of the Nation are now beginning to know that there is a symbiotic relationship between the United States and the Pacific Rim. Our State has known this because 7 of our 10 largest partners in trade are Pacific Rim countries, and 1 out of every 5 jobs in the State of Washington is tied to two-way trade.

In order to make that relationship survive and flourish, we are going to have to address a number of issues which, if not dealt with, will not only inhibit progress, but could destroy it. That is the purpose of the hearing today—to explore the strength of our two-way relationship from a security and an economic point of view.

As we move forward here today and hear from the witnesses, we should explore the evolving nature of the U.S. security commitment to this region, as well as the economic factors involved in our two-way relationship.

With their new-found prosperity, countries like Japan and South Korea will be asked to assume a larger responsibility for their own security. Should they? Should they not? What are the appropriate answers to the stubborn trade deficit that persists between the United States and many Pacific Rim nations? Do we need to be concerned about the increase in foreign investment in our country by the Pacific Rim nations? What experiences and lessons have we learned in the Northwest by our relationship with the Pacific Rim which can be instructive to the rest of the Nation, which is only now moving toward this?

Finally, we will look, in this hearing, at some of the individual nations of the Pacific Rim, regarding the political and economic trends in their countries. We have invited experts on these nations to this hearing this morning so that we may explore in greater detail and depth the enormous changes that are happening in countries where we have ignored their political and cultural change for too long.

I believe the 21st century will be dominated by the U.S. Pacific Rim axis. Those of us who have the most expertise in dealing with this area of the world have a tremendous opportunity to lead and influence the course of human events during our time on this earth.

Before beginning, I want to thank our witnesses for their interest in participating.

I also want to thank the Port of Seattle for their hospitality in hosting us today.

Finally, I appreciate all the help and support we have received in setting up this hearing, particularly Bob Kapp at the Washington Council for International Trade. I want to thank you for your assistance.

Our first witnesses this morning will be Don Lorentz, Washington State Department of Trade and Economic Development, Dr. John Haley of the Jackson School of International Studies, and Mr. Orvil Roetman, Vice President for Government Affairs of the Boeing Co.

As Senator Cranston arrives, we will break for a moment so that he has an opportunity to make an opening statement and to get acquainted with the witness. Then we will proceed through the panel. At the end of the panel we will have a short break so that the members of the port authority will have an opportunity to come down for a moment, chat with the witnesses and with Senator Cranston, and then we will proceed on with the next panel of witnesses.

I am very pleased that you are all here this morning.

Mr. Lorentz, we will start with you. We are prepared to receive your statement, and you may proceed either by reading it, having it placed in the record, summarizing it, or in whatever fashion you would like. Just let the Chair know, and I will so rule.

STATEMENT OF DON LORENTZ, DIRECTOR OF BUSINESS AND MARKET DEVELOPMENT, WASHINGTON STATE DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

Mr. Lorentz. Thank you. I have written out my remarks, and your staff has them, but if it's all right, I will read through them, as well.

Senator Adams. Please proceed.

Mr. Lorentz. Thank you.

It is an honor to appear today before this subcommittee, and we appreciate your coming to Washington State.

I am here in place of John Anderson, the director of our department, who is out of the State due to a prior commitment. I was asked to provide an overview of Washington State's economic relations with the Pacific Basin.

The Washington State economy as a whole is larger than that of many nation-states, including Argentina, Norway, Indonesia, and even the Philippines. Our gross State product of just over 80 billion is nearly as great as the GNP's of South Korea and Saudi Arabia. Indeed, if we were a nation-state, we would rank 21st in the world.

Among the most significant reasons for our economic strength is international business, which is critical to our overall economy. We are a State of 4½ million people bordering the northeast sector of the Pacific Basin, equidistant by polar air routes between Europe and Northeast Asia. We have an educated labor force. We have traditionally relied on raw material exports, but since World War II, have become a rapidly diversifying economy, increasingly oriented toward advanced technology and university research-based industries. In manufacturing, our economy is doing well, outperforming our region and the Nation. Over the past 5 years we have created more jobs than our neighboring States and provinces combined.

We are an integral part of the international economy. Our per capital export output is twice that of California and the rest of the United States. In fact, according to a recent Western Governors' Association study, Washington-produced exports equaled or exceeded that of 14 other Western States, excluding California of course, combined. Our per capita exports exceed all other States. On a total basis, we are fourth, exceeded only by California, Texas, New York, and Michigan.

International business is critical to our overall economy. Of the approximately 165 nations in the world, we trade with about 110. Total two-way trade through the State in 1987—this is pass-through, as well as Washington-produced and consumed products—exceeded $46 billion, a number about 40 percent that of California, a State with eight times our population. By contrast, Oregon, another important trading State, had a two-way trade value of just under $14 billion.

These are U.S. Customs district numbers, and they include pass-through trade to and from Asia primarily, the northern half of the United States, and Canada. They are not limited to goods produced or consumed in the State. On the other hand, they do not measure revenue from international services such as those earned by such firms as international banks, customs brokers, freight forwarders and others, which would further increase the value. Our guesstimate is that together, international service firms would add another $1.7 billion to our total.

Of the total two-way trade flow, nearly $17 billion in 1987 were exports, and just under $30 billion were imports. Many of these imports were destined for Canada, which over the last few years has brought in about 65 percent of its East Asian imports through Washington ports. Indeed, approximately 80 percent of our imports are destined for markets outside Washington State. Thus, imports consumed in the State are about $6 billion.

However, products and commodities produced in Washington and exported are 63 percent of the totals shown by Customs districts. Total value of reported Washington-produced exports in 1987 was just over $10.6 billion, providing a surplus of $4½ billion. If the

$1.7 billion from international service revenue, along with the approximately 500 million dollars' worth of Washington wheat distributed and marketed out of Oregon—if they were included, the total surplus would reach close to $7 billion for this State alone.

An important reason for our high trade volume is our geographic location and transportation port infrastructure. We are the closest continental U.S. air and sea port to East Asia. The ports of Seattle and Tacoma are among the U.S. largest container ports, while other State ports have carved out special niches in such areas as commodities, access to Canada, and petroleum handling. Washington ports handle nearly one-third of the west coast cargo. We have also established a sea-air cargo program link between Europe and Asia via sea connections to and from Japan, and air freight links to and from Europe. International air freight has expanded by an average of close to 40 percent a year since 1982.

The Pacific Basin is an area of utmost significance to our trading and other business relationships. East Asia accounts for nearly 60 percent of the State's actual exports. Europe receives over 30 percent, Canada about 9 percent. These are the three most significant foreign markets for Washington State, although it is probably more useful to separate Japan from other East Asian markets. From the standpoint of our department, we differentiate four primary markets: one, Japan; two, East Asia other than Japan, which is basically from Korea through China down to Thailand; three, Western Europe; and four, Canada.

Japan is our largest two-way trading partner. Of the $10.6 billion in recorded Washington goods exported, 2.9 billion dollars' worth of goods go to Japan, about 27 percent of the total. If pass-through exports from other States are included, the numbers are closer to 30 percent of our total exports.

Imports from Japan are also significant. Of the nearly $30 billion total imports, almost $13.5 billion in 1987 were from Japan. That is about 42 percent of the total. Remember that 80 percent of our imports, approximately, are consumed and purchased elsewhere in the United States and Canada.

The rest of East Asia, including Australia and New Zealand, account for over $2.5 billion in Washington exports, plus another $2.5 billion in pass-through goods, or 24 percent of our total; 29 percent, if you include pass-through goods.

East Asia's importance as an import source is even more significant, especially for the port and transportation-related service and distribution companies that are such an important part of the Puget Sound economy. Of the nearly $30 billion in total imports that flow through Washington's sea and air ports, Japan accounts for about $13.5 billion, 45 percent of the total. The other East Asian nations represent 37 percent of the total, or $10 billion. Together, Japan and East Asia account for 82 percent of this State's total imports.

Japan is of course our most important Asian export market, followed in order in Asia by the People's Republic of China, Australia, Hong Kong, and Korea, which join the United Kingdom, Canada, West Germany, and The Netherlands as our top 10 export markets for 1987.

Our primary source for Asian imports, following Japan, in order, are Taiwan, Korea, Hong Kong, Singapore, and Australia, which join Canada, France, and the U.K. among our top 10 international import sources.

The primary exports are aerospace and transportation equipment at just under $6 billion, over half the total, followed by wood products including pulp and paper, which is about $1.7 billion, or 16 percent of the total, and agricultural, livestock, food products, which make up another $1.7 billion, or 17 percent.

Among other important exports to Asia are marine and fisheries products, primary metal products, chemicals, mining, and refinery equipment.

In recent years there has been a significant growth in exports relating to computer equipment, including software, electronics, and medical products and technology. More of this has gone to Europe and Canada and other United States States than to Asia, but as intellectual property rights expand, the Asian market for these products will expand as well.

Asian exports, aside from aerospace-related products, are primarily, for now, natural resource commodity-based, or at the lower end of the processing industries. We would like to see that expand, obviously.

Thus, Asia is of great significance to our State as a trading partner. It is of less, but growing, significance as a source of direct investment in business enterprises. Japan is this State's third largest foreign investor source, exceeded by the U.K. and Canada. Europe as a whole accounts for over 50 percent of this State's jobs derived from foreign investment.

However, Japanese investment is growing rapidly. There are now over 160 companies in Washington owned or controlled in some significant measure by Japanese business entities. They account for about 7,000 employees. Over 40 of these are in the manufacturing sector, and produce such products as ceramic chips, silicon wafers, wood processing, apple or other agricultural byproducts, and processed food. The investment is quite diversified.

Japan is also heavily involved in transportation operations, import-export wholesale distribution, and international banking. More recently, they have shown a desire to invest even in such areas as destination resort facilities.

As for Asian investment outside Japan, it is still rather small, but growing. Hong Kong and Taiwan have made some investment in this area, primarily in real estate for now. Korea will probably increase its investment soon, but we have not seen that in significant amounts yet.

It is important to note that many of the Japanese firms that are in fact located in this State are among our leading exporters, including nearly all of the major Japanese trading companies. All have regional operations based in Seattle. Both Mitsubishi and Mitsui, for example, export far more than they import from Washington ports.

Northeast Asia is also an important source of international tourism. Canada is of course in a class by itself as the most important source of foreign tourists, but Japan is second. Our most recent numbers are 60,000 tourists from Japan. Taiwan and Hong Kong are also among our top 10 sources of foreign tourists.

Asian tourists, especially from Japan, tend to spend more money than the average tourist. International travel from Japan is expanding more rapidly than from anywhere else in the world. With four airlines having daily or near-daily direct links between Seattle-Tacoma International Airport and Tokyo, we are well positioned to receive even more Japanese visitors in the future.

Korea we expect to grow, as there is a liberalization of passport requirements in that country which is coming on stream now, and I would expect that to grow in the future, even though up until now it has not been significant.

A final point to be made with respect to our economic relationships with the Pacific nations relates to education and research. The Washington economy is really two-tiered. It is advanced technology-based, in some ways, including aerospace, computer software, biotechnology, electronics, and medical equipment; and on the other hand it is natural resource-based, especially forest products, agriculture, and fisheries.

The advanced technology industries which have led our economy in the central Puget Sound area in recent years are heavily research-based, tied closely to technology transfer from our major universities. These programs require knowledge of Japanese, as well as European and American technology and processes. They also require the intellectual cultural understanding that goes with it. Hence, our schools from Kindergarten-through-12 to university level have worked to develop programs in Asian culture, history, and languages.

We do not claim to have enough. More are needed to make us truly prepared to be economically competitive in the 21st century, but there is a consensus in our State that economic, social, and cultural elements of our future are increasingly tied to the Pacific Basin.

Our relationship with East Asia is not totally rosy. It is still overbalanced with imports when looking at the national economy as a whole, and opportunities for processed agricultural and forest products are too often restricted in some Asian markets. For most advanced technology and processing-oriented firms, Europe and Canada still represent near-term greater sales opportunities than does Asia.

But we are happy that progress is taking place, especially in Japan, and even other places in East Asia. Our processed wood and agricultural exports to Japan have increased significantly over the past 2 years. We have positive trade balances, even including U.S. Customs district numbers, with Thailand and Australia. Thailand has especially grown as an export market for Washington goods. It is now our 12th largest export partner.

The United States must work hard to open Asian market opportunities. However, we strongly oppose proposed protectionist moves, which would ultimately limit those opportunities. Imports and exports together are important to us, and a restricted U.S. market would be disaster for the State of Washington.

Thank you again for inviting me to speak to this subcommittee.

Senator ADAMS. Thank you very much, Mr. Lorentz.

We will withhold questions now, until the panel has completed its testimony, and then we will question each of the witnesses at that time.

It is a great pleasure for me this morning to welcome an old friend, and a person that we respect very highly in the community, Dr. John Haley, the head of the Jackson School at the University of Washington.

The Jackson School of International Studies is a long-time advocate of both better relations in the Pacific Rim, but also has given us a great a source of information, starting with the Far East Department, for many, many years. So, Dr. Haley, it is a great pleasure to have you with us this morning. We look forward to hearing your testimony.

STATEMENT OF JOHN O. HALEY, DIRECTOR, THE HENRY M. JACKSON SCHOOL OF INTERNATIONAL STUDIES, UNIVERSITY OF WASHINGTON

Dr. **HALEY**. Senator Adams, it is my pleasure and honor to be invited as the director of the Jackson School of International Studies to make a brief statement as an overview of political changes in East Asia.

The Jackson School, as you know, and other members of the committee I believe know, is one of the two or three most significant national centers for research and instruction in East Asian studies. We house two federally funded centers that involve East Asia: one is the East Asian Studies Center, and second, we lead a regional Consortium for Southeast Asian Studies.

I would like to read a statement, and then answer any questions that the committee may have afterward.

Over the past decade, the pace of economic and political change in East Asia has greatly accelerated. Within just the past year, a series of political events have taken place throughout the region from Burma to the Korean Peninsula that are remarkable for their direction, as well as their magnitude. Although largely overshadowed by trade and other economic concerns, the political consequences of these events are equally, if not significantly more, important for the region and for the United States. My purpose this morning is to sketch very briefly and broadly these changes and the dynamics of the process they reflect, and in so doing, to identify at least a few of the more salient implications for U.S. policy.

To state my conclusions at the outset, recent developments in East Asia reflect a process of profound political change engulfing the region as a whole. As a result, many of the fundamental premises of postwar U.S. policy in East Asia can no longer be taken for granted. They must be reexamined. The U.S. must act decisively and quickly to redefine long-term national interests, including strategic considerations in the region, in the broader context of a thorough reassessment of the nature and directions of political transformation now occurring in East Asia. We need both vision and realistic objectives.

The chronicle of recent developments begins with the notable transition to more responsive, representative government in the Philippines, Taiwan, and South Korea. In the Philippines, the

Aquino government has endured despite repeated coup attempts, a gravely deteriorating economy, and civil war. In Taiwan, significant progress toward more democratic governance is evident in the transition from the late President Chiang Ching-Kuo to President Lee Teng-Hui.

The orderly political revolution that swept the Republic of Korea with the resignation of President Chun, constitutional amendment, the elections of President Roh Tae Woo, and a new national assembly dominated by the opposition parties, also demands attention. Indeed, few if any countries in the world can match Korea's postwar political as well as economic achievements. Korea has overcome a half century of colonial occupation, devastating civil war, and a continuous threat to its security from North Korea, to emerge, it now appears, as potentially the region's second truly stable industrial democracy.

Elsewhere, the news is also heartening. In Kampuchea, the prospects for a political settlement of over a decade of tragic conflict now seem realistic. The Communist regimes of Vietnam and North Korea both appear to be making genuine overtures to improve relations with their Asian neighbors and the United States. In Burma, despite continuing upheaval, there now appears to be some promise for the emergence of a more open and responsive regime. For Southeast Asia as a whole, ASEAN had evolved into an increasingly effective vehicle for regional cooperation.

In the People's Republic of China, the process of political and economic reform begun over a decade ago continues. And in the Soviet Far East, Gorbachev's domestic policies of perestroika and glasnost have had discernible impact. We are also witnessing new Soviet initiatives toward China and Japan.

Nor has Japan, the region's industrial giant, been immune from the currents of political reform. A new imperial era has commenced in the midst of the most significant political scandal of the postwar era. This can only be explained by heightened public intolerance of "money politics" within Japan's political establishment.

These are not isolated, separate events. As evidenced by the impact on Korea of the overthrow of the Marcos government in the Philippines as well as the widening influence of Japan's economic success, followed by that of Korea, Taiwan, Singapore, Hong Kong, and Thailand, these are incidents within a broader, interrelated process of dynamic social, political, and economic change in the region.

Together they signal, hopefully, the emergence of more stable, democratic states as a product of economic growth. But however welcome the direction of these events, they are not without elements of risk.

Greater democracy inexorably produces national governments that are apt to respond more vigorously to nationalist impulses. Current trade conflict and tension with the United States thus pose serious political challenge. In the words of one of my colleagues in the Jackson School:

> The conviction that American economic problems in Asia stem from American mistakes and incompetence, and are properly viewed in a patronizing if not contemptuous way, appears to be spreading from its natural home in Japan to Korea and Taiwan.

He could have added Southeast Asia as well.

Our focus must therefore return to Japan. Our relations with much of the rest of Asia ultimately turn on how our economic and political ties with Japan develop. As the Japanese reach new levels of self-confidence in their own achievements, they tend increasingly to view our economic and political demands—from trade reciprocity to burdensharing—as motivated by self-interest and hegemonic decline. We must therefore expect Japan to become an ever more assertive advocate of its own interests and independent policies. We cannot expect Japan always to compromise, and must ourselves reach internal consensus on our priorities before we attempt to forge a new partnership.

The dynamics of change in East Asia require us to revise both our vision of East Asia as well as the particular strategic, political, and economic policies we should pursue in the region. In this endeavor it is essential that we understand the interrelationships of political and economic developments in the region as a whole, and reconsider our paramount aims and objectives. There are no easy answers, but not since the immediate postwar period has the need for expertise and insight by those who make policy, and their advisers, been greater.

In this endeavor, two propositions need to be emphasized. First, but for the stability of the liberal economic and political order and the system of military security we have sustained in the Pacific since World War II, the economic achievements and equally welcome political changes that are taking place in Asia would not have been possible. Second, we need also to know that we are in fact winning an ideological struggle in Asia. Whatever our economic successes or failures, the United States remains the model for principled governance. Recent political developments show just how loudly our ideals of responsible, representative political institutions, of stable democracy, human rights, and ethics in government do echo across the Pacific.

The political implications of these two fundamental features in our relationships with East Asia seem equally obvious. For political progress in Asia to continue, security in the Pacific must also continue to be among our highest priorities. At the same time, we must also remain sensitive to our ideological role, our commitment to democratic, principled governance, and human rights.

Finally, whatever we do, our policy in Asia must be realistic and coherent, one that enjoys consensus at home as well as the confidence of the Asian and Pacific region as a whole. In other words, our capacity to provide leadership must be maintained.

We must, of course, be concerned with our economic relationships and the economic resources that ensure our capacity to provide military security. But we should take care not to lose sight that our primary aim in Asia is not economic might, but political leadership.

Thank you.

Senator ADAMS. Thank you very much, Dr. Haley.

As with Mr. Lorentz, we will withhold questions until the panel has completed its testimony.

It now gives me a great deal of pleasure to invite to address the committee, and welcome to the committee, Mr. Orvil Roetman of the Boeing Co. We are very pleased to have you with us this morning, and we look forward to your testimony. Mr. Roetman.

STATEMENT OF ORVIL M. ROETMAN, VICE PRESIDENT, THE BOEING CO.

Mr. ROETMAN. Thank you, Senator Adams. It's certainly my privilege, and an honor, to be here this morning representing the Boeing Co.

I would like to submit a written statement, and then use my allotted time this morning to highlight some of the key features or key points from that statement.

Senator ADAMS. Without objection, the entire statement will be included in the record as though given, and we welcome your statement.

Mr. ROETMAN. We hear much these days about the words and phrases: internationalization, globalization, transnational manufacturing, cross-border leasing, global capital markets. These are all important concepts, but I suggest that they're not all that new, at least to the Boeing Co.

I say this because the majority of our customers are foreign airlines. We have several significant foreign suppliers, and we are involved in a number of international cooperative arrangements.

We have heard this morning, a couple of definitions of the area we are talking about. I might note that the statistics with which I will deal today concerning the Asian-Pacific region covers an area basically that begins in Japan and Korea, and continues west through India, Pakistan, and includes all the non-Soviet part of that world, as well as what is sometimes referred to as Oceania. So, it's a large Pacific area. These countries, all of them, play significant roles in each three of these business areas.

I might just add a historical note, Senator, to what you were saying. Boeing's first aircraft, the B&W, with its sister ship, was sold to the New Zealand Government some 70 years ago. We've been in the business a long time. Asian-Pacific airlines were among the early customers ordering Boeing jet transports.

Sales to foreign customers have consistently accounted for 40 to 50 percent of our total annual sales, with the export share approaching 60 percent during a 2-year period in the early 1980's. Customers in the Asian-Pacific region have taken delivery of Boeing products valued at more than $28 billion during the past 12 years, and have accounted for more than one-half of our non-U.S. sales for the past 6 years.

Boeing does, or has done, business with airlines in every significant Asian-Pacific country except North Korea and Vietnam. I emphasize the word "significant." We have a few countries out there that fall within the area that I've defined where they have airlines that are local, or they may not have an airline at all.

Our current projection is a commercial jet transport market in this region amounting to $70 billion in the next 15 years. We expect that the airlines of Japan will represent about one-third of this market.

Airlines in the Asian-Pacific region have grown more than twice as fast as the worldwide industry as a whole. They currently fly about 17.5 percent of the world's revenue passenger miles. We expect this rapid growth to continue, and we think that their share of the world market will increase to some 22 percent or more by the year 2000. Of course, the airlines' growth is reflected in the passenger growth, and vice versa.

We expect the Asian-connected markets to outperform all the other markets by the year 2000. Asian-connected markets are expected to be at traffic levels 12 to 17 times the 1970 levels, as compared with 5 times the 1970 levels for the other world markets.

Another important aspect of Boeing's international business is the procurement from foreign sources of airframe parts, assemblies, systems, and components for our jet transport production. The foreign content value of the commercial airframes—and here I exclude engines, avionics, et cetera—produced by Boeing is between 4 and 5 percent.

Percentagewise, this foreign content or foreign procurement is not that great. However, the dollar value is quite significant. Over 40 percent of our foreign procurement comes from Asian-Pacific sources. Japanese industry is our largest foreign source for commercial airframe-related procurement. However, Japan-based airlines also represent our largest foreign commercial aircraft market.

Our relationship with Japanese industry dates back to 1969 when Mitsubishi Heavy Industries first won a contract to manufacture parts for the 747. Japanese parts contractors are also risksharing participants in the 767 program. Today, more than 30 Japanese companies are involved in design, fabrication, and assembly of structures and parts for Boeing commercial aircraft.

The Japanese financial community, both public and private sectors, have provided significant resources to assist in the financing of commercial jet transports. More than 35 percent of all commercial jets sold worldwide in the past 4 years have received some level of sales financing support from the Japanese capital markets.

As Korean industry has developed, it has been increasingly successful at obtaining subcontract work on a competitive basis.

Other Asian-Pacific members of Boeing's subcontract team include the People's Republic of China, Indonesia, Australia, and the Republic of China. We don't do much in the way of procurement in Singapore, but we do have a supply depot operation there.

Turning to a third aspect of our international business in this area, I might comment on cooperative arrangements. A memorandum of understanding was signed in March 1986 by Boeing and Japan Aircraft Development Corp. and its member companies to jointly develop, produce, and market an all new short-to-medium range, medium-size commercial transport. This is designated the 7J7. The Japanese companies will collectively have a 25-percent full partner or equity role. As full partners, they participate in all functional areas, and will share overall management, investments, risks, sales financing, and revenues in proportion to their equity position.

Currently, this 7J7 activity consists of joint research and development efforts underway and is being carried out both at Boeing and in Japan. These are cooperative efforts to develop technologies, and to assess market opportunities.

Since 1983 Boeing has been providing technical assistance to an aircraft manufacturing facility in Indonesia, and we've already placed subcontract work there. We are in the process of a feasibility study with the People's Republic of China on a 150- to 180-passenger aircraft. We have recently entered a cooperative agreement with the Republic of China covering both subcontract procurement and the exploration of possible areas of cooperation in research and development.

In defense trade, Boeing has sold Chinook helicopters to the Republic of China, Korea, the People's Republic of China, Thailand, and Australia. We have committed to subcontract procurement in Korea, and will be negotiating for some work in the People's Republic of China. Our aerospace division is exploring potential sales opportunities in a number of Asian-Pacific countries.

Export sales have been and will continue to be important to Boeing. As a result, we have long been an advocate of fair and open international trade, and we will continue to promote that policy in the United States and among its trading partners.

Few industries face as severe an effect from the prospect of protectionist or market-restricting actions as the export-led U.S. commercial jet transport industry.

Thank you very much for this opportunity to appear here today.

[The prepared statement of Mr. Roetman follows:]

PREPARED STATEMENT OF O.M. ROETMAN

Mr. Chairman, Senator Adams:

I am Rusty Roetman and it is my privilege to represent The Boeing Company at this hearing focusing on our economic and trade relations in the Asia-Pacific region.

If you open any publication dealing with world affairs, chances are you will find major articles addressing the global economy, the interdependence of national economies, or the need for more cooperative approaches in solving or alleviating world economic problems. Global markets and interdependence are nothing new to Boeing.

Currently a majority of our customers are foreign airlines, we have several significant foreign suppliers, and we are involved in a number of international cooperative arrangements. Countries or companies in the Asia-Pacific region play significant roles in each of these business areas.

Boeing activity in the Asia-Pacific region goes back to our very beginning in the aircraft business. Boeing's first aircraft, the B&W with its sistership was sold to the New Zealand Government. A Boeing airplane, the CL-4, was used on the world's first international air mail route in 1919. However, the volume of our Asia-Pacific activity really became significant with the dawn of the commercial jet transport age. Asian-Pacific airlines were among the early customers ordering jet transports.

Sales to foreign customers have consistently accounted for 40 to 50 percent of our total annual sales, with the export share approaching 60 percent during a two-year period in the early 1980's. Customers in the Asia-Pacific region have taken delivery of Boeing products valued at more than $28 billion during the past 12 years, and have accounted for more than one-half of our non-US sales in the past six years (1983 - 1988). In our statistical reporting, the Asia-Pacific region generally includes the area from Japan and Korea south through Australia and New Zealand and west through non-Soviet-Asia to Afghanistan and Pakistan.

In our major product area, commercial jet transport aircraft, total industry orders from airlines in the Asia-Pacific region have amounted to $31 billion during the five year period 1983 through 1987. About 70 percent of those orders were for Boeing aircraft. Boeing does, or has done, business with airlines in every significant Asian-Pacific country, except North Korea and Vietnam.

Our current projection is a commercial jet transport market in the Asia-Pacific region amounting to $70 billion in the next 15 years. We expect that airlines in Japan will represent about one-third of this market. Another indication of the importance of the Asia-Pacific market to Boeing is that airlines in this region represent about 40 percent of the foreign business potential that Boeing is currently pursuing through active sales campaigns.

Airlines in the Asia-Pacific region have grown more than twice as fast as the worldwide industry as a whole, largely due to the growth in trade within and among the Asian countries and in exports to Europe and the United States. They currently fly about 17.5 percent of the world revenue passenger miles, the industry's measure of capacity, and we expect that their rapid growth will continue, resulting in their share of world traffic increasing to more than 22 percent by the year 2000, almost equal to the traffic share flown by European airlines.

Overall airline passenger traffic growth in the major Asian-connected markets has similarly outperformed other markets. Currently, the traffic moving between Europe and Asia is about eight times the level existing in 1970, and intra-Asian and trans-Pacific traffic is five times the 1970 level. Traffic elsewhere in the world, such as US domestic, North Atlantic, and intra-Europe markets, are only three times 1970 levels. By the year 2000, the Asian connected markets are expected to be at traffic levels 12 to 17 times 1970 levels, compared to about five times the 1970 level in the other world markets.

Another important aspect of Boeing's international business is the procurement of airframe parts, assemblies, systems and components for our jet transport production from foreign sources. The foreign content value of the commercial airframes (excluding engines, avionics, etc.) produced by Boeing is between four and five percent. Over 40 percent of our foreign procurement comes from Asian-Pacific sources. Japanese industry is our largest foreign source for commercial-airframe-related procurements. However, Japan-based airlines also represent our largest foreign commercial aircraft market. In the six-year period, 1983 through 1988, total Boeing sales to Japanese customers have been more than $5 billion.

Our relationship with Japanese industry dates back to 1969 when Mitsubishi Heavy Industries first won a contract to manufacture parts for the 747. Japanese contractors are also risk-sharing participants in the 767 program. Today, more than 30 Japanese companies are involved in design, fabrication and assembly of structures and parts for Boeing commercial aircraft. Total Boeing subcontract commitments to Japanese sources have amounted to almost $1.4 billion.

The Japanese financial community, both public and private sectors, have provided significant resources to assist in the financing of commercial jet transports. More than 35 percent of all commercial jets sold worldwide in the past four years have received some level of sales-financing support from Japanese capital markets. Further, these markets have shown innovative approaches to asset-based financing techniques.

As Korean industry has developed, it has been increasingly successful at obtaining sub-contracting work on a competitive basis. To date, we have purchase contracts in Korea exceeding $125 million. Korean customers have purchased more than $600 million of Boeing products in the six years since 1983.

Other Asian-Pacific members of Boeing's subcontract team include the Peoples Republic of China, Indonesia, Australia and the Republic of China. Although Boeing does not do any subcontracting for parts or components in Singapore, we have established a supply depot operation there to serve airlines operating Boeing aircraft in that region.

Let me turn to a third aspect of Boeing's international business in the Asian-Pacific area and comment on cooperative arrangements. A Memorandum of Understanding was signed in March, 1986 by Boeing and Japan Aircraft Development Corporation (JADC, a quasi-government owned consortium) and its member companies to jointly develop, produce and market an all new short-to-medium range, medium size commercial transport, designated the 7J7. The Japanese companies will collectively have a 25 percent full partner or equity role. As a full partner, the Japanese may participate in all functional areas and will share in investments, risks, sales financing and revenues in proportion to their equity position. The Japanese will also participate in overall management with voting rights in proportion to their equity position.

The current 7J7 activity consists of joint research and development efforts which are currently being carried out at Boeing as well as in Japan. These are cooperative efforts to develop technologies and to assess market opportunities.

Since 1983 Boeing has been providing technical assistance to an aircraft manufacturing facility in Indonesia and we have already placed subcontract work there. We are in the process of a feasibility study with the Peoples Republic of China on a 150 to 180 passenger aircraft. Also, we have recently entered into a cooperative agreement with the Republic of China covering both subcontract procurement and the exploration of possible areas of cooperation in Research and Development.

In defense trade, Boeing has sold Chinook helicopters valued at $450 million to the Republic of China, Korea, the Peoples Republic of China, Thailand and Australia. We also are involved in a co-production program with Japan for Chinook helicopters valued at $250 million. In addition, in connection with our helicopter activity, we have committed to subcontract procurement in Korea, and we will be negotiating for work in the Peoples Republic of China. Our aerospace division is exploring potential sales opportunities in a number of Asian-Pacific countries with an estimated total value exceeding $5 billion.

Export sales have been and will continue to be important to Boeing. As a result, we have long been an advocate of fair and open international trade, and we will continue to promote that policy in the United States and among all of its trading partners. Few industries face as severe an effect from the prospect of protectionist or market-restricting actions as the export-led US commercial jet transport industry.

Thank you for the opportunity to appear before your committee.

Senator ADAMS. Thank you, Mr. Roetman.

I see that Senator Cranston has arrived. We would be most pleased now to invite Senator Cranston forward. Alan, I suggested maybe an opening statement, and then we can go to questions of the panel, and then break for a few minutes after that, and the port authority will be here.

To those of you who do not know him, the senior Senator from the State of California.

He is the majority whip of the U.S. Senate, which means that he is the No. 2 person in the leadership ladder of the U.S. Senate. He has served in the Senate not only as an expert in areas of housing and banking, but he is a ranking member on the Foreign Relations Committee. He is chairman of the Subcommittee on Far East and Asian Affairs, and is an expert on not only security matters, but trade matters for the Far East.

We are very pleased, Alan, that you would join us today. It's a great pleasure to welcome the chairman of the subcommittee, and I know that all of you will want to have a chance to meet and chat with him during the course of the morning.

What we thought we would do is—I'm sure Alan probably has a brief opening statement. Then I would go to some questions of the panel. We will break for 10 minutes so that people have a chance to chat a minute, and then we will go to the next panel of experts.

So, at this time it gives me a great deal of pleasure to introduce the senior Senator from the State of California, the Hon. Alan Cranston.

Alan.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. Thank you, Brock, very, very much for taking over due to my delay, and for all the good work you've done on this committee and in so many other ways.

I apologize to all of you for my lateness, but it was due to matters beyond my control and yours; the weather. The fog this morning caused our plane to stop at Eugene to get some more fuel. We had to circle the airport.

I'm delighted to be here. I thank those of you who have already testified, and all of you who are present and are interested in the topic that has brought us together here.

I'm delighted to be with Brock Adams, who has been such a fine leader in your State, and in Washington—the other Washington—on foreign policy, on transportation, and the economic issues that are so important to all of us. He provides a very, very effective leadership on many, many of those issues.

This morning's hearing is one of a series that the subcommittee is holding on the west coast focusing on our long-term goals in Asia. Tomorrow we'll be in Los Angeles, and Thursday in San Francisco.

Our charge is to think imaginatively about the challenges of the coming century, and to prepare for the opportunities we will face and have in the course of the next generation.

We are pleased to have a distinguished group of business, academic, and community leaders with us from whom we are, I trust, receiving wisdom gained from day-to-day experience in grappling with these issues in the realms where you operate.

I want to share just a very few observations, so I won't interrupt the proceedings that have already gotten underway.

Next week President Bush makes an important statement by making Asia his first foreign policy destination. I want to briefly put forward a tentative agenda for our Asian policymakers, and then invite your comments in the course of the balance of this hearing.

And I'd be particularly interested—I'm going to ask each of you this question; you might think about it—if you could give one piece of particular advice to George Bush as he goes to Asia, what would that advice be?

My premise is that sweeping changes throughout the Pacific provide tremendous challenges and opportunities for the United States. Japan is awash in capital, its economy surging ahead, its military budget now the world's third largest, its foreign development assistance programs second to none, its trade surplus with the United States still hovering at $55 billion annually. China is struggling with extraordinary economic reforms and a GNP which promises to double in less than 10 years. On Taiwan, economic prosperity is bringing political reforms and new diplomatic opportunities. South Korea, proud of its own economic miracle, is showing new political and diplomatic maturity to, we hope, match that miracle, even as the younger generation presses for reexamination of ties with the United States. The Philippines are forging ahead with their own economic revival, after their marvelous bloodless people's revolution, while coping with the twin burdens of Communist insurgency and crushing international debt.

As new leadership advances throughout this entire Pacific region, across the Pacific, we must keep pace, and provide our own leadership. If we don't, we will forfeit the ability to shape those changes, to the extent we can, to our benefit, as well as to the benefit of people who reside across the Pacific.

I believe new initiatives are urgently required to secure American interests in East Asia, as we build for the next century. Highlights of the specific policies I believe we should consider include the following:

One, on security issues the United States should, I think first, press for a long-term solution to the Philippine base issue, which addresses Manila's debt concern, while securing United States access to these crucial facilities, at least through the end of this century;

Second, welcome Japanese payment for more of our on-the-ground costs in Okinawa, while discouraging Japan from assuming more broad military missions, and recognizing that with the world's now third-largest military budget, Japan has already rearmed;

Third, continue selective sales of defensive arms to Chinese on both sides of the Taiwan Straits;

And fourth, make clear that our troops in Korea will remain as long as they are needed as a deterrent against the north.

On the trade front, we need to resist sweeping protectionist measures like the tariff bill, but we must not unilaterally disarm in the trade competition.

The new expedited section 301 reviews must be used for swift and certain retaliation when Americans encounter sector-specific discrimination. We need to use GATT mechanisms to open and close foreign markets, especially through our agricultural products, high-technology products, and financial service industries.

And we need to stop shooting ourselves in the foot by overzealously barring technology exports because of an excessive concern about national security. I've fought long and hard in the Senate to encourage approval of commercial sales of light commercial aircraft to Eastern Europe where the Pentagon has hindered U.S. export opportunities. I will continue to fight for reform and more liberal export policies consistent with true national defense needs.

Finally, in the area of education, we need a major new commitment to combating illiteracy, both illiteracy in English among our workers, and international illiteracy in foreign languages in the board room. George Bush pledged to be the education President. He can fulfill that commitment by joining Congress in leading a national campaign to improve American training in math, science, and foreign languages. What I really think we need to launch is a war upon ignorance in our country. That means far better performance in education.

There is much, much more to be done in developing an American agenda for the Pacific century. I look forward over the course of this day, and the hearings in the next 2 days, to learning more of your ideas, and specifically the concern of Washington State leaders, as we weigh the best means to prepare for the challenges ahead.

I thank each of you for your time, and your contributions—those of you who have testified, and those who will—and I look forward much to our discussion.

Brock, again, thank you for your leadership, your hospitality, and your friendship.

And you start with the questions. Since I don't know exactly what's happened up to this point, I wouldn't have many. You proceed, since you were here.

Senator **Adams**. Alan, I'll let your question start. I have several questions here, but I think it's a very interesting one, and it is certainly timely.

Dr. Haley, would you like to respond to Senator Cranston's comment? If you had one piece of advice to give President Bush on his visit, what would that be?

Dr. **Haley**. I wrote down, "To listen." I believe that what is happening in Asia at the present time really requires that we begin to listen to what Asians tell us are their concerns, and particularly to explain to us, again, how important our leadership role is.

Over the past few months a number of my colleagues in the Jackson School have had the opportunity to attend a number of conferences both in the Soviet Union as well as Japan and the Philippines, and they've all returned with a single comment: that the Asians they're meeting, both in academic, and government and military circles, are asking for the United States to continue its leadership role, but they want the United States to have a better understanding of their particular concerns and their particular environments; and for us, on the basis of what we've learned, to develop a more coherent, more effective, and more realistic policy.

So I'd say, "To listen."

Senator **Adams**. Mr. Roetman, or Mr. Lorentz, do you have a comment you'd like to make?

Mr. **Roetman**. Well, to pick out again one area, certainly, looking at the trade area—Senator Cranston already mentioned this—this business of resisting sweeping protectionism. We don't need to roll over and acquiesce in everything, but we need to avoid, I believe, if at all possible, any sweeping protectionism.

Mr. **Lorentz**. I don't disagree with any of the comments. I might put a little different perspective on it, though. I agree with Dr. Haley's earlier comments about East Asia being interrelated in some sense, but it's by no means a united region, as even, for example, the EEC might be, or United States-Canada. We can overstate the unity of the region in some ways, although clearly it is growing together in certain areas, especially the economic.

Japan, with its sense of order, its economic strength, sees itself as an important Asian leader, and expects to be taken more seriously in the future. Other Asian nations respect the economic strength of Japan, but aren't sure they really want to follow Japan in all areas, or at least are sensitive to that. The United States is in a position where it has friends among Japan and all the other Asian nations, and I think it plays an important role in seeing that the nations of Asia play their proper role, whatever that is.

So, I would just encourage the President to be sensitive to those differences within Asia that are a part of it, as is the growing economic strength of the region.

Senator **Adams**. I have a question, Mr. Roetman, for you, because the statistics, as they were well given by Mr. Lorentz, indicate that here we have an imbalance in trade, as well as elsewhere. But we have one factor in this community that is different from all the other Western States—actually from the whole Nation—and that is the success of the Boeing Co. in selling high-technology products to the Asian nations.

And the question is continually put to all of us in Government, "Well, are we just sending raw materials to Asia?"—logs, apples, food, and so on. And we are importing VCR's, and TV's, and so on. And the biggest example that's usually set forth is that the Boeing Co. can sell.

Do you account for this by the fact that you had no major competitor for a number of years there, or—tell us a little bit about Boeing's abilities to penetrate Japan.

We lost the electronics bid, for example, with the Japanese telephone company when it went forth. We had a bad experience with fiber optics. We're very good at a lot of these things we do, but we don't penetrate their markets well. You penetrate well. Do you want to comment on that for Senator Cranston and myself?

Mr. **Roetman**. I don't know whether there's a quick answer. I think there are a number of factors at play. Certainly in Japan at this time we do not have—or in any part of that area—a direct in-country competitor. I think this is a factor.

However, for a more complete answer, you almost have to trace the history of the commercial jet business. We were not a significant player—the Boeing Co. was not—in air transportation until the dawn of the jet age, when the company took what certainly were substantial risks in the original investment in the jet transport program. There is a lot of stick-to-it-iveness. There is a lot of dedication.

I think one of the reasons we've been successful is that we've been able to develop the product line, but we've also constantly modernized that product line, and we've dedicated the resources, on a long-term basis, to sell that product line.

Senator **Adams**. Let me break in. I have a followup question, and the reason is that it is something that is facing us in the Senate right at the present time. It's before the Congress.

You mentioned the 7J7. There's also the proposal to sell, in effect, the technology of the F-16 to Japan and have them develop this fighter, and in effect create a Japanese aircraft industry.

The issue that comes up is: Should we be selling them our F-16's or should we send over this 7 billion dollars' worth of technology and have them develop an aircraft industry?

And then will they ship back to us airplanes, as they have VCR's and TV's, so that you will then have a competitor? And the competitor will be this massive economic power which I believe you testified—and correct me if I'm wrong—was involved in 35 percent of all the financing of aircraft sales throughout the world last year.

Mr. **Roetman**. That's right. Since about 1985.

Senator **Adams**. Since 1985 they have financed, in some form or another——

Mr. **Roetman**. In some way or another they have been involved in that market.

Senator **Adams**. You might then comment on my question, because this looks to me like we're just about to feed a lamb chop to a very large wolf.

And I am very protrade. The argument that is going on in this is sincerely held by both sides, and a number of us are trying to make up our mind on it. That was the reason for my first question. You are preeminently the successful sales organization of high-technology products to this area where we have this tremendous trade deficit. And you explained how and why you've done it, and some of us are familiar with that.

But you had a better mousetrap than anybody else, and nobody else even came close to it. And the Japanese could very well come very close to it if we go into, in effect, building a Japanese aircraft industry.

Mr. ROETMAN. Senator, we certainly have a stable that keeps us competitive. We have a full line of aircraft that's been developed, as I said, over a large number of years, and certainly the quality of that product, and the reputation that that product enjoys, are certainly a major factor.

I'd like to go back to one other thing, though. I think I can make a better comparison, perhaps, by thinking of Africa. People in Boeing had the foresight many, many years ago to go ahead an expend the effort and the energy in Africa to develop that market. We had some salesmen working in that part of the world for almost 10 years with virtually no sales, but we did have the wisdom to make the long-term investment. And finally when that market began to open up, we sold 100 airplanes within a very short period of time.

I note this to illustrate my point that you have to dedicate yourself over the long term, if you're going to be successful in the international marketplace.

As far as the Japanese becoming a competitor, certainly that's possible, and we have thought about that. It's possible, I believe, if the Japanese Government were to decide that this would be very, very important to them.

We've looked at some things, though, in the past, and it appears to us, or at least it appears to me, that there are some differences. Usually when the Japanese have gotten into the export market very strong, there has been a domestic market. A large domestic market. It's been a large domestic industry.

In the case of aircraft, the Japanese share, while it is very large—Japan is our largest single foreign location for customers—it still only represents about 6 percent of the world market. It's not a captive market at all. They produced one commercial airplane, the YS–11, several years ago, a small turboprop. That program was a financial disaster for them. They were not successful.

Another thing, as I look at the major companies in Japan, I'm impressed with their profit orientation. I haven't seen much evidence to date that they are big risktakers in this area. They want to work together. They seem more interested at this point in component manufacturing and subcontracting—on a partnership basis, to be sure—rather than taking the lead in a major program.

As you suggested, that could change, but we do think there's a difference here. The capital investment to get into this business today is enormous. A new airplane program for a company of our size, with our background, would probably cost upward of $3 billion initial investment just for one program. To build this up over a period of time takes an enormous investment.

Am I forecasting that they won't do it? I'm not prepared to go that far. I think they can. But we don't see any evidence of it at the moment.

As far as the F-16, I'm not very familiar with that program, other than what I've been reading in the press. I do know there's a great concern about it. Technology today—and I mentioned some words, globalization, internationalization—I think technology is also becoming global. I know that with the work we're doing on the 7J7, technology is a two-way flow, both in and out. But I don't believe we have the enormous lead that we enjoyed at one time in technology per se.

Senator **Adams**. Do either of the other panelists want to comment on that? I know I directed a rather specific question.

If not, what we'd like to do now, is to give Senator Cranston an opportunity to gather his thoughts, and take a break for 5 minutes. This will provide an opportunity for the Port Commission to come down and meet Senator Cranston. Then we can proceed to the second panel.

Alan, would you like to have this panel stay so that you can ask some questions after the break? That will give you a chance to look at the statements.

Senator **Cranston**. I don't really think it's necessary. I don't want any delay in getting to the other panel.

I have already been informed to some extent on what has been said, and I appreciate it very much.

Mr. Roetman, I'd like to say to you that I've been eager to get your thoughts on how we can carry on our common battle against unduly restrictive restraints on exports in matters that some people think would help adversaries in military ways. As you know, we've had a long, tough fight. I've been very much engaged in that battle on the Banking Committee, and in conference on legislation, and I wanted to go further. I worked with Congressman Bonker on that issue when he was on the House committee. I'd be interested in your thoughts on anything more we should be doing on it.

Mr. **Roetman**. I'd like to see that a little bit easier, Senator. Perhaps—I must say I have spent some very unpleasant—many unpleasant hours in Washington working for export licenses for Eastern Europe. We finally succeeded, but it's awfully hard.

Senator **Cranston**. Yes.

Mr. Haley, I just wanted to comment on your belief that the political developments in Asia are even more significant than the incredible economic developments. I'm encouraged by most of those political developments, as you are. I have high hopes that we can encourage further movement in those directions.

I thank the three of you very much.

Senator **Adams**. At this point we will take a recess for 5 minutes. Then we will go to the next panel when we finish.

And I would like to welcome Chairman Pat Davis, and Zeger van Asch van Wijck.

We will take a short recess. Don't anybody leave.

[A brief recess was taken.]

Senator **Adams**. The subcommittee will come to order. We are pleased to welcome our second panel this morning. I will introduce them first, and then I don't know whether we want to start with Mr.——

Mr. Abnett, are you going to testify, or give advice?

Mr. ABNETT. Just to give advice, Senator Adams.

Mr. HARDING. I'm here to testify, and when the hard questions come, Mr. Abnett will——

Senator ADAMS. You're going to—that's what I wondered. That's fine.

Our first witness is Mr. Richard Harding, senior vice president of the First Interstate Bank. He is with the Washington State China Relations Council, and is president of it at this time.

We are very pleased to have you here. It's a great organization.

Then we will go to Mr. Baskerville, Mr. Manring, and Mr. Allen.

I want to express my appreciation and that of the subcommittee for all of your willingness to be here and testify.

First, Mr. Harding.

STATEMENT OF RICHARD H. HARDING, PRESIDENT, WASHINGTON STATE CHINA RELATIONS COUNCIL; ACCOMPANIED BY, WILLIAM ABNETT, EXECUTIVE DIRECTOR, WASHINGTON STATE CHINA RELATIONS COUNCIL

Mr. HARDING. Thank you very much, Senator Adams, Senator Cranston. It's a great pleasure to be here this morning.

I have been the president for the last year of the Washington State China Relations Council, and Bill Abnett, as you know, is the executive director of that organization.

We are a nonprofit organization—private nonprofit—representing 110 members, dedicated to promoting economic trade and cultural relations between the State of Washington and the People's Republic of China.

Washington State enjoys a particularly strong relationship with the PRC that goes back to the early 1970's when the Boeing Co. sold its first 707's, and the Weyerhaeuser Co. shipped its first logs to China. China's senior leader, Deng Xiaoping, chose to visit Washington State in January 1979 during his first visit to the United States. The first PRC seagoing vessel to make a port call in the United States anchored here in Seattle some 10 years ago.

Since diplomatic relations began between the United States and China, which were established in 1979, Washington State's trade with the PRC has flourished. Last year, it is estimated that our total trade with China approached $2 billion U.S. Between one-eighth and one-seventh of all United States-China trade passes through the State of Washington every year. Washington State ships more exports to China annually than does any other State, and the State is second only to California in imports from China.

Most importantly, Washington State's trade with China is balanced. In contrast to many of the State's other trading partners, the PRC engages in exporting and importing, not just in exporting. It is estimated that in 1988, China was the State's fourth- or fifth-ranking importer of goods produced in this State. And these were goods that were produced in the State of Washington.

There are many reasons why Washington State's trade with the PRC has fared so well in such a short period of time. One of the reasons is that the State's modern and efficient ports are located at least one sailing day closer to China that are other west coast United States ports. And because about 85 percent of Washington

State's imports pass through the State, the ports and the railroads have developed a highly efficient intermodal transportation system that serves final destinations, particularly in the Midwest.

For example, the cargo of a container ship that departed Shanghai can be offloaded in Seattle, transferred to an eastbound freight train, and be well on its way to Chicago before another vessel that left Shanghai the same day has even reached its destination in California.

Another reason is that there is a strong demand in each country for the other's exports. Basically, the State exports to China four broad types of commodities: Boeing airplanes and aircraft parts, which we've heard about earlier this morning; forest products from Weyerhaeuser, Plum Creek, ITT Rayonier, Pacific Lumber and Shipping, Northwest Timber Export Co., and other forest products companies; high-technology equipment such as from firms like the John Fluke Manufacturing Co., and the Dorado Co.; and machinery and equipment produced by Paccar, Dana, Robbins Co., Ederer, and others. Washington State's exports to China happen to be those products that are highest on China's list of preferred imports.

On Washington State's import side, we buy China's leading export commodities: textiles and apparel, and toys and sporting goods. The State is one of the centers of America's sportswear industry, with such famous importers as Generra, Eddie Bauer, REI, Brittania, and the like. Our council now is in the process of trying to encourage China to diversity its exports out of the politically sensitive area of textiles and apparel. Our top priority is to bring together China's electronics parts producers and the council's electronics equipment manufacturers, so that our high-technology firms can be the future source of PRC electronic components.

Although in the past, trade has dominated Washington State's economic relationship with China, council members in recent years have been increasingly turning to licensing arrangements and joint ventures. In an unprecedented development the MGM Development Co. of Bellevue has negotiated a contract worth about $1 billion to develop an industrial park on more than 1,400 acres of tideland located close to the major port city of Tianjin. MGM will receive a 70-year lease on the property, the longest lease granted to a foreign company since the founding of the PRC in 1949.

MGM's plans call for building a 60-story twin tower that houses a first-class hotel, an exhibition hall, and a trade center, and residences for expatriate executives. The proposed industrial park will accommodate some 120 turnkey facilities that will be subleased or sold to investors from the United States, Europe, and Japan.

The PRC has also chosen to invest in Washington State. CITIFOR, a subsidiary of the well-known China International Trust and Investment Corp., also known as CITIC, is a Chinese-owned corporation, registered in Washington State, with headquarters in Seattle. CITIFOR owns standing timber in Washington, Oregon, California, and Alaska for use by CITIFOR in forest products exports. CITIFOR sends most of its logs back to China, but it also ships some to Japan and South Korea.

Another PRC corporation, SUNRY Seattle, Inc., has set up shop in the Seattle area. SUNRY, whose parent organization is

MOFERT, the Ministry of Foreign Economic Relations and Trade, purchases forest products from Washington State's timber firms.

Both CITIFOR and SUNRY are members of the China Relations Council.

There are indications that Chinese investment in the Washington State area is on the rise. A Chongqing-based firm—Chongqing being Seattle's sister city—called Y.F. International reportedly acquired an existing Washington State high-technology firm that produces aerospace parts for the Boeing Co. I have little doubt that in the coming years new PRC investments will follow the leads of CITIFOR, SUNRY, and Y.F. International.

A final reason for the State's success in expanding trade with China is demonstrated by the accomplishments of the Washington State China Relations Council. Since the council's creation in 1979, council members have contributed approximately $1 million to support enhanced trade and economic relations with the PRC.

The council, together with its members from the Washington State business community, have helped make Washington State one of America's most heavily traveled destinations for high-level PRC guests and delegations. The council has hosted such senior Chinese officials as Vice Premier Yao Yilin, CITIC Chairman Rong Yiren, and PRC Ambassadors to the U.S. Zhang Wenjin and Han Xu.

In addition to hosting PRC officials, the council has brought dozens of Chinese businessmen to the State and has hosted high-level United States officials, American "China Watchers,' and both United States and PRC journalists.

While we have worked hard here in Washington State to improve United States-China relations and to enhance trade opportunities between ourselves and the PRC, the Chinese Government has been working equally hard to carry out an ambitious economic reform program that includes not only expanding trade with the West, but also eventually creating a market-determined price structure.

The PRC has achieved that which Soviet Secretary General Gorbachev has not yet: a successful track record. China has gotten the government out of farming, has launched a long-term effort to link industrial and agricultural prices to market forces, and has made a commitment to become a responsible member of the international trading system. The PRC has joined the World Bank and the International Monetary Fund, and is now one of the world's top 10 trading partners.

China's leaders, while disagreeing over the pace of economic reforms, appear to be united in the long-term commitment to economic reform. In perhaps the most important demonstration of that commitment, the PRC government has applied to become a contracting party to the General Agreement on Tariffs and Trade, the GATT.

The council's executive director, Bill Abnett, was a member of the United States negotiating team during the first two rounds of bilateral negotiations on China's GATT accession. Mr. Abnett is confident that the PRC, in order to become a GATT member, will make the necessary changes to its trade policy—including a commitment gradually but steadily to adopt a market price system—to enable China to play by GATT rules.

The next year or two will see the PRC become a full contracting party to the GATT. That development will be good news not only for Washington State, or for just America, but for the world.

The prospects are excellent for continually expanding economic and trade relations between Washington State and the PRC. Since China launched its market-oriented economic reforms, the country's overall economic growth rate has grown at an average annual rate of about 8 percent in real terms. During that same time period, China's foreign trade has grown at a rate about twice that of the economy.

Some observers forecast that China's economy will surpass that of Japan in the year 2010. Others say that China will have the world's largest economy by the year 2030. Even if China does only half as well as these analysts predict, China's trade should continue to advance at a rapid clip for the next 20 to 50 years. And given Washington State's advantages in trading with the PRC, our State's trade with China should grow at least as fast as China's total trade.

In conclusion, let me say that the Washington State China Relations Council and its members share a strong, long-term commitment to expanding trade and economic relations between our State and China. We have committed considerable resources to this end, and will continue to do so in the future. We believe strongly that China is making impressive progress in its economic reform efforts, and that China's continued modernization along the lines of the past 10 years is truly in this State's and the country's best interests.

We very much appreciate the opportunity to be with the committee today, and we look forward to your questions.

Senator ADAMS. Thank you very much, Mr. Harding. We will hold our questions until all the panel have testified. And I stated to the first panel, and I would repeat it to the second, that you may present your statements and testimony in any fashion that you wish. You may put it all in the record, if you want, and you could summarize, or you can proceed to read it. The Chair will be most happy to do that.

And once again I will state to any new people that have come in, we have kept the record open, and will keep it open for a period of 5 days, to receive additional written statements.

I want to compliment the staff on the breadth and depth of the witnesses that have been before us already and are with us in this panel.

Our next witness is Mr. Robert Baskerville. He is president of the America-Korea Trading Club. He has been a member of the Peace Corps in Korea. He has a great understanding of this nation, one which we unfortunately have not focused on in the degree to which we should have during the past years, and now it is rapidly coming to the fore.

So, Mr. Baskerville, we are very pleased to have you here this morning. Mr. Baskerville is with Davis Wright, in this city. We look forward to hearing your testimony.

STATEMENT OF ROBERT A. BASKERVILLE, PRESIDENT, AMERICA-KOREA TRADE CLUB OF WASHINGTON STATE

Mr. BASKERVILLE. Thank you very much, Senator Adams, Senator Cranston.

I have prepared some written testimony which I'd like to submit, and then I would just give an oral summary.

Senator ADAMS. Without objection, it will be included in the record in full, as though given. You may proceed.

Mr. BASKERVILLE. I'm the president of a trade club, which we call the America-Korea Trade Club of Washington, with about 150 members. These are businessmen interested in trade with Korea, and they include both the Korean businesses that have offices here, as well as the Washington State businesses which are interested in Korea. This is an entirely volunteer club. We don't have a big staff, or anything of this nature.

My remarks today are my own views, however, not those specifically as a member of the club. But I think many of the club members would probably agree with me.

I would like to make three main points about Korea and its relationship with Washington State.

The first is that Korea is already one of our most important trading partners. If you look in terms of exports through our ports, it is our third most important, after only Japan and Canada.

The second point I'd like to make is that events are moving very fast in North Asia, Northeast Asia in particular. And because of recent changes, we should not take our relationship with the Republic of Korea for granted.

Which leads to my third point, which is: We are going to have to move fast to keep up with events. And that's the main theme of my remarks today.

Mr. Lorentz of the Washington State Department of Trade and Economic Development has already commented on some of the trade figures, and some of them are in my written testimony. So, I'm not going to spend all my time emphasizing the details of the relationship between Korea and Washington State, except to say that a lot of our goods produced here are destined for Korea, and Korea sends a lot of goods to our port.

There has been a trend toward mutual investment, but my own feeling is, it's not as significant as it should be. We have some Korean liaison offices here in Washington State. There have been some investments primarily in the fisheries area, and to a limited extent, in the real estate area.

We had a speaker at our trade club a couple of months ago from the Korean Ministry of Trade and Industry who had some documents for us. One of the documents he had which was of interest to me was a plan by the Government of the Republic of Korea for investment in specific States of the United States. Washington State was not even on that list, so I think that we need to be aware that we may not be doing quite enough to impress the Koreans with the importance of our State.

I might say that the Koreans, when viewing us, may look at us through their own tinted glasses, the same way we would look at them. They look at the United States, and they want to know, if you would, where the Seoul of the United States is. And that may be New York or Los Angeles, perhaps Chicago, but Washington, or Seattle might be more like Mokpo, or Pusan, or something, to them; perhaps not considered to be such an important place. So, we need to work on that issue.

I would like to emphasize now—move on to the second point, which is the changing events in Northeast Asia just over the last few months. And if I could use a metaphor, it's as if pressures have built up along tectonic plates over the years, and suddenly there's a shift, and we look around and we can see the realignment, that we are at a different terrain all of sudden, from the terrain we were in just a few days ago.

I would use the event of the Seoul Olympics as kind of a benchmark or an indication, to focus our attention on how things change, and how fast they are changing. The Seoul Olympics brought together, I believe, more countries than have ever attended the Olympics before, and they weren't all there just for sports. They were there for commerce and political reasons.

And perhaps the most interesting exchanges—just exchanges which I happen to have had some perspective on—are the exchanges between South Korea and the Soviet Union which took place, and focused on the occasion of the Olympics. I was in Chabarovsk, which is a Soviet town north of North Korea, during the Seoul Olympics, during the first part of it. I was there for business, negotiating a deal on behalf of a Washington State company. But the Soviets I met were particularly interested in South Korea.

And on the way home, I went down through Japan to South Korea and spent a few days there, and found a reciprocal interest on the part of the South Koreans in some sort of a relationship with the Soviet Union. There was a Soviet vessel in Inchon. There were, as far as I could tell, a few Soviets looking for business deals with the Koreans. And just—that's the first indication that things were changing very fast.

I would just like to briefly draw your attention to some recent news articles that appeared in the Korean press, to give you some idea of the perspective which the Koreans must have on change in their area.

For example, on December 23—and these are from the Korean Hankukilbo, these stories, except where I otherwise indicate—December 23, 1988, the Soviet Union suggests the establishment of direct sea lanes between Nakhodka and the east coast of the Republic of Korea.

On January 1, 1989, under obvious pressure from the Soviet Foreign Minister, North Korea acknowledges, and presumably accepts economic exchanges between the Republic of Korea and the Soviet Union.

On January 7, 1989, North Korea reportedly approves the establishment of a joint venture bank with the participation of Koreans resident in the United States for the purpose of financing joint projects in North Korea, to be financed by bonds sold on the United States market, primarily to Korean Americans in the United States.

And Chung Joo-Young, the chairman of Hyundai, leaves for the Soviet Union, announcing his intention to promote the construction of oil and gas pipelines from Siberian fields to South Korea, passing through North Korea.

I'll skip a couple of these and move to the ones I consider more significant.

January 22, 1989, Chairman Chung of Hyundai leaves for Pyongyang in North Korea with the apparent intention to meet with Kim Il-Sung, the leader of North Korea, and to discuss mutual investment and development projects.

On January 24, 1989, the Soviets announce the opening of reciprocal trade offices in Seoul and Moscow.

February 1, 1989, North and South Korea establish a direct sealane for the first shipment of coal arriving from North Korea into the Port of Inchon. The Chung Ang Ilbo reports that Hyundai and Dongbang Fisheries are planning an investment in the world's largest fish plant, to be located in Nakhodka in the Soviet Far East.

And February 3, Chairman Chung of Hyundai returns from North Korea with news of an agreement to develop tourist facilities in the Kumgang Mountains, which are just north of the DMZ in North Korea.

Since I wrote the testimony, there's been another story in the Hankukilbo about Chairman Chung, who was originally from North Korea. He is the 74-year-old chairman of one of the larger conglomerates in Korea. He visited his hometown of Tongchon in North Korea, and there's a kind of chatty story about him sitting down with his family, and then townspeople, in the home where he grew up and hasn't seen for 45 years.

So, there are some very interesting things going on just within the last few weeks.

Which brings me to the third point, which is that we need to keep up with events and see how they might benefit us. I would suggest, although I don't know exactly where this will lead, that there should be opportunities for people from our State—and I would say broadly, from the United States and the west coast in general—to look for projects, and joint projects, for the development of North Asia. It's my feeling that if we don't participate, we will simply be left out of this process. I think there's not much we can do to change it, and we should be thinking about ways that we can turn it to our benefit.

The Soviet Union appears to have recognized a tremendous mistake on its part, which is the ignoring of Asia for many years, where in Asia, Vladivostok has been primarily a military center. And I think that Gorbachev understands what a colossal mistake this is, and they're trying to correct it. And of course they are actively seeking whatever ties they can establish in, specifically, South Korea.

Exactly how we use this to our benefit, I'm not sure, but I think that we should look for the economic advantages. The political effects I leave to people wiser than I am. I don't think I'm capable of sorting those out.

Thank you very much.

[The prepared statement of Mr. Baskerville with attached newspaper clippings and translations follow:]

PREPARED STATEMENT OF ROBERT A. BASKERVILLE

Mr. Chairman, Members of the Senate Foreign Relations Subcommittee on Asia, thank you for giving me this opportunity to discuss the relationship of Washington State to the Republic of Korea. My name is Robert Baskerville. I am the president of the America-Korea Trade Club of Washington and I practice law in Seattle with the firm of Davis Wright & Jones. The majority of my practice consists of representing Korean companies in their dealings with Washington State companies, and vice versa. I was born, raised and educated in Seattle. I received my B.A. in Russian language and literature from the University of Washington in 1966 and my law degree, also from the University of Washington, in 1973. In addition to practicing law in Seattle since 1973, I have spent a total of about six years in the Republic of Korea. I went to Korea as a member of the first group of Peace Corps Volunteers to that country in 1966, and spent three years there. In 1981 I returned to Korea where I worked with the law firm of Kim and Chang in Seoul, to a large extent representing U.S. companies in their dealings with Korea.

My topic today concerns Washington State and Korea, but I find it difficult to stay completely within the lines. Some of my remarks concern the broader relationship of our country to the entire North Asian region.

I would like to make three main points:

1. Korea is one of Washington State's most important trading partners.

2. At the same time, events are moving very fast in Korea and the rest of North Asia, and we cannot take our relationship with Korea for granted.

3. We must move fast to keep up with events, to shore up and maintain our relationship with Korea, and to take advantage of the opportunities that change in Korea and North Asia will present to us.

1. Korea Is An Important Trading Partner.

We know that the Republic of Korea is already one of our top three trading partners. U.S. Department of Commerce data prepared by the Washington State Department of Trade and Economic Development show us that Korea is third in terms of the value of export trade passing through Washington State ports, $1.3 billion dollars' worth in 1987. Korea has purchased over $1 billion per year of such exports for several years. Only Japan and Canada purchase more goods shipped from Washington State than the Republic of Korea.

Korea has been fourth for several years as the source of imports entering Washington State ports. In 1987, the value of such imports was $2.9 billion. Only Japan, Taiwan and Canada ship more through our ports.

The trade figures do not identify state of origin of exported products, so we cannot tell what percentage of the goods exported through Washington State ports are actually manufactured here. Some of the categories do indicate Washington State origin, however. One of the largest export items to the Republic of Korea over the past few years has been airplanes from the Boeing Company. Other major export categories are agricultural products, logs and fish products, all to a large extent sourced in Washington State.

The major Korean trading companies have established liaison and purchasing offices in Washington State. Among them are Daewoo, Samsung, Sammi, Hyundai and Hanjin. The local Korean press reports that ten Korean fishing companies have opened offices in the Seattle area.

Over the past two years, we have seen many investments and joint ventures by Korean companies in the fisheries area. This phenomenon has been caused primarily by the Magnuson Act, under the provisions of which direct foreign fishing has been eliminated from the U.S. Exclusive Economic Zone. In order to have access to U.S. fish resources, the Koreans must invest in U.S. companies. The Koreans are interested in securing long-term sources of supply for their domestic market, for other markets in Asia, and for the U.S. market as well.

The past year has also seen the beginning of Korean investment in Washington State real property, including a real estate development project. It is too early to tell whether this is a trend that will continue.

Investment from Washington State sources into Korea is relatively small. Westin Hotels is a partner in the Westin-Chosun Hotel in Seoul. Boeing and Weyerhaueser maintain offices in Seoul, but the Washington State banks which used to have branches there have been acquired by out-of-state banks and have closed their Korean offices. The paucity of Washington State investments in Korea may hamper the efforts of Washington State companies to become involved in development projects in North Asia as a whole, as discussed below.

2. Events Are Moving Fast In Korea.

Most of us are aware that great changes have occurred in Korea over the last 20 years. The per-capita GNP has increased tenfold. From a long period of chronic deficits, Korea has begun to run trade surpluses in the last few years. Korea has sustained an average annual growth rate in excess of eight percent over the past 20 years. These are remarkable achievements. One might expect the Korean economy to level off or slow down. In fact, change is accelerating, both in the economic and political spheres.

The 1988 Seoul Olympics acted as a catalyst for change, both in Korea and throughout North Asia.

In the view of some Koreans, the Seoul Olympics facilitated the peaceful transition of power at home, a much desired event which had eluded the Republic of Korea throughout its history. With the eyes of the world focussed on Korea because of the Olympics, the previous administration could not use force to stifle dissent. Under popular pressure, the constitution was changed to permit the direct election of the president, orderly elections were held for the office of president, and then, within a few months, for the members of the National Assembly.

Korea, where power has been centralized for centuries, changed overnight into a system where the office of president is held by a minority party, while the National Assembly is controlled by opposition parties. The citizens of Korea, long denied any negative news about their government, are watching public hearings on the misdeeds of the previous administration, day after day on national television. The former president is doing penance in a mountain temple, while the former head of the National Security Agency (KCIA) has been interrogated and arrested. Through all this, the engine of economic progress keeps rolling ahead on schedule. This is just on the domestic front.

The international developments are equally amazing. The 1988 Seoul Olympics brought together the nations of the world to engage in commercial and political exchanges as well as contests of athletic prowess. Barriers which have stood for decades fell with a delicate push. Lines of friendly communication were opened in an afternoon where no communication had existed for forty years. The Seoul Olympics, it seems, gave everyone an opportunity to express what had been on their minds for a long time.

The Soviet Union, for one, has acknowledged its greatest mistake since the sale of Alaska, that is, the turning of its back on the Pacific, its self-imposed exclusion from the development of Asia. Having publicly acknowledged their error, the Soviets are now moving as rapidly as they can to make up for the years of neglect.

During the Seoul Olympics, daily flights of Soviet athletes from Khabarovsk to Seoul were instituted. A Soviet vessel, reportedly with 2,000 on board, anchored in Inchon Harbor for the duration of the games, and the Soviets made full use of the opportunity to contact Korean companies and government agencies. I was in Khabarovsk in September, during the Olympics, negotiating a fishing joint venture between a Washington State company and a group of Soviet enterprises. The Soviets with whom I spoke expressed interest in establishing commercial ties with the Republic of Korea. Completing the negotiations in Khabarovsk, I traveled to Seoul through Japan. Although the games were still in progress, I found the Koreans to be as interested in commercial relations with the Soviet Far East as in the athletic events in progress. They saw the potential for developing this under-populated and resource-rich region.

The Koreans also used the occasion of the Olympics to arrange an exchange of diplomatic missions with Hungary, to establish ties with other Eastern Bloc countries, and to increase commercial relations with People's Republic of China.

Although one cannot know exactly what the Koreans are thinking these days, one can look at what they are reading, and can gain insight into their perspective. I have clipped recent headlines and stories from the Korean press (included as an exhibit to this testimony) to illustrate how striking the perception of change must be in South Korea. Consider the following items:

> December 23, 1988: The Soviet Union suggests the establishment of direct sealanes between Nakhodka and the East Coast of the Republic of Korea.
>
> January 1, 1989: Under obvious pressure from the Soviet Foreign Minister, North Korea acknowledges, and presumably accepts, economic exchanges between the Republic of Korea and the Soviet Union.
>
> January 7, 1989: North Korea reportedly approves the establishment of a joint venture bank with the participation of Koreans resident in the United States for the purpose of financing joint projects in North Korea, to be financed by bonds sold on the U.S. market. Chung Joo-Young, the Chairman of Hyundai, leaves for the Soviet Union, announcing his intention to promote the construction of oil and gas pipelines from Siberian fields to South Korea, passing through North Korea.

> January 11, 1989: The Minister of Trade and Industry of the Republic of Korea announces the approval of the drafting of a bill to regulate trade between South and North Korea. It is reported that Kim Woo-Choong, the Chairman of Daewoo, plans to visit North Korea to discuss various joint venture projects.
>
> January 12, 1989: It is reported that North Korea has ordered direct from Lucky Goldstar 50,000 color TV sets manufactured in South Korea.
>
> January 14, 1989: The Associated Press reports that South Korea and Hungary will upgrade the status of their permanent missions to the ambassadorial level next month.
>
> January 22, 1989: Chairman Chung of Hyundai leaves for Pyongyang, with the apparent intention to meet Kim Il-Sung and to discuss mutual investment and development projects.
>
> January 24, 1989: The Soviets announce the opening of reciprocal trade offices in Seoul and Moscow. South and North Korea exchange letters to facilitate contact at the prime ministerial level.
>
> January 26, 1989: The San Francisco Examiner reports that South Korean students vote Gorbachev the top world leader.
>
> January 27, 1989: Jindo announces that it is collecting information about the possibility of a joint venture for the production of fur coats in North Korea.
>
> January 28, 1989: It is reported that Hyundai will form a joint company with the Soviet Union for the purpose of building a coastal power station, developing petroleum and gas, and producing pulp in Siberia, among other projects.
>
> February 1, 1989: North and South Korea establish a direct sealink, and the first shipment of coal arrives from North Korea into the port of Inchon. The Chung Ang Ilbo reports that Hyundai and Dongbang Fisheries are planning an investment in the world's largest fish plant to be located in Nakhodka in the Soviet Far East.
>
> February 3, 1989: Chairman Chung of Hyundai returns from North Korea with news of an agreement to develop tourist facilities in the Kumgang Mountains.

It is difficult to comprehend all the implications of these events. Just a short time ago, even discussing such matters could land a person in prison. Events seem to be moving faster than thoughts. Who can blame a person for feeling dizzy?

3. We Must Move Fast To Keep Up With Events.

It will take time and effort for us to digest and understand the events that are taking place in Korea and the rest of North Asia. To stop or to alter their course is impossible. The best we can do is to try to understand, and to look for opportunities.

It seems inevitable that the development of North Asia will take place during our lifetimes. We can sit on the sidelines and watch, or we can do our best to participate in the process. The development will take place whether or not we join in.

Our relationship with Korea could turn out to be a great benefit to us. For one thing, the Korean domestic market is growing and should be one of the stronger markets in Asia. Our large Korea-American population will give us many contacts to help our businesses provide goods and services to that market. For another thing, the energy and entrepreneurship of Korean companies in developing Asia will present opportunities for us as well as for them. We have know-how, technology, machinery, and financing which will be required by the projects that lie around the corner.

It will be to our long-range benefit to maintain and improve our relations with the Koreans. If we choose not to join them, they will certainly go on by themselves or will find other partners.

Are those of us in Washington State prepared to take advantage of our present relationship with the Republic of Korea and to build on that relationship? The answer is yes and no. There are about 30,000 to 40,000 Korean Americans in our State, most of them recent immigrants still with family, school and business ties with their home country. These people will, of course, be a valuable resource to us. Their presence here gives us a pool of knowledge and experience. The interest of Washington State companies in Korea has been increasing quite rapidly over the past few years. For example, we have seen membership in the America-Korea Trade Club of Washington increase from about 40 to about 150 in two years. Some of our local companies, like Boeing, Weyerhaueser and Westin have ties with Korea that go back quite a number of years.

On the other hand, we have some big gaps to fill. Our schools do not teach Korean language, history or culture to any significant extent. My impression is that the general level knowledge about Korea is quite low. As a general matter, our schools still emphasize the languages of Europe over the languages of Asia. Although some of our students do study Korean, very few achieve professional competence in the language. It also seems to me that very few of our business people have the detailed knowledge of Korean markets necessary to operate successfully in that country.

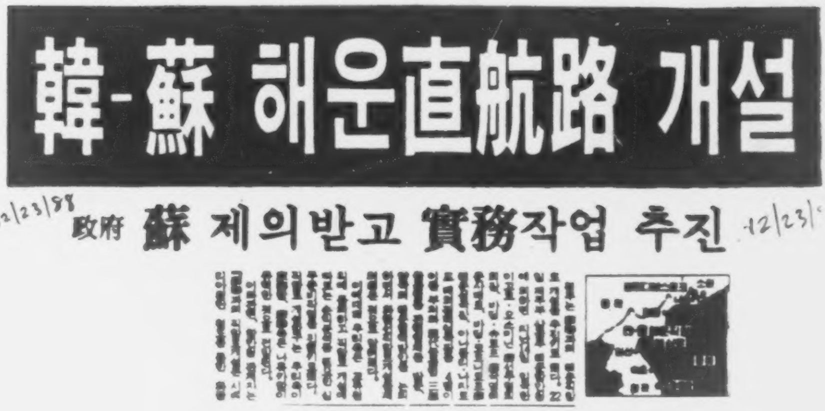
The first thing for us to do is to realize how poorly prepared we are to operate in Korea and other Asian countries. Once that realization has sunk in, I am confident that we will be able to take the steps necessary to correct the situation. Large scale or expensive solutions will not be necessary. For example, we do not need to teach basic Korean to all our school children. What we need is a relatively small number of people with a high level of competence, rather than a large number of people with a low level of competence. The Koreans and other Asians achieve their competence and gather their information about us by studying in our colleges and universities. We might learn from this example and encourage our students to spend a few years in the academic institutions of Korea and other Asian countries. We should also encourage them to work abroad. Of course, students will not be willing to make this investment of time and money unless they see the possibility of a rewarding job at the end of the process. I hope that the businessmen of our State will recognize the importance of language and cross-culture training and work experience in the countries of Asia.

On the one hand, we must work diligently to improve our skills if we are to have a chance to join with the Koreans in the development of Asia. On the other hand, we should not have unrealistic expectations. The current euphoria will certainly fade, and then we will have to make a realistic long-term assessment. The projects currently in the newspapers may not materialize. Political events could change the mood dramatically, as has happened in the past. It is possible that we may not succeed, even though we try, but it is certain that we will not succeed unless we try. The burden is on us here in Washington State to inform ourselves and to seek out opportunity. We need to be prepared for events.

One event which we should not permit to take us by surprise is the possible rapprochement, federation, or unification of the two Koreas. Like many of the other events now unfolding, this event could take place without our participation, or in spite of our reluctance to participate. Although such a possibility seemed remote and unattainable a few years, or just a few months, ago, we should now consider it to be a possibility. Our own Korean-American population could play an important role in the establishment of South-North trading relations and the eventual unification of the Korean Peninsula. It will be prudent for us to maintain the best relations we can with both sides of this emerging Asian power.

It would be presumptuous to propose a detailed policy for our relations with Korea, in light of the rapid changes going on there, but it is clear that we must give Korea our careful attention, and that it will be in our long-range interest to maintain and nurture the Korean relationship in the years to come.

(Newspaper clippings are from the Hankukilbo
except where otherwise indicated.)



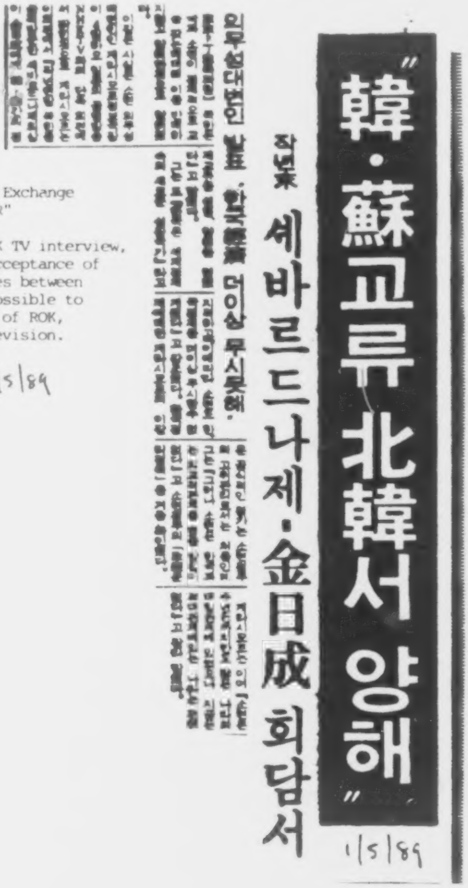
韓-蘇 해운直航路 개설

12/23/88 政府 蘇 제의받고 實務작업 추진 12/23/

"Establishment of Direct Sea Link Between ROK and USSR"

The Hankukilbo reports that the Soviet Union is suggesting the implementation of a direct sea route between Nakhodka and Tonghae. The Korean government is interested in principle, but in no particular hurry. Talks are also underway to establish direct sea links between the ports of Tianjin and Shanghai in China and Pusan and Inchon in the ROK. Four Soviet ships are currently under repair in Korean shipyards.

12/23/88



"韓·蘇교류 北韓서 양해"

작年 세바르드나제·金日成 회담서

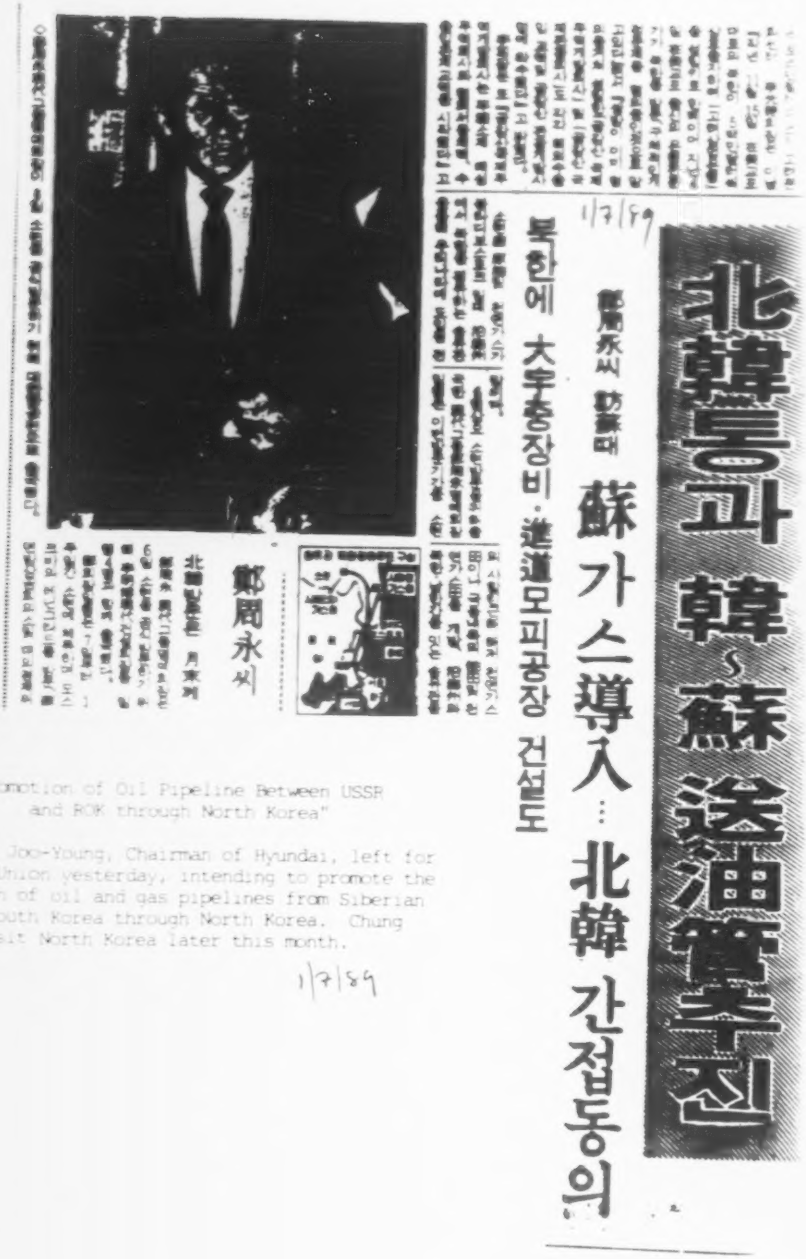
외무성대변인 발표 '한국經濟 더이상 무시못해'

1/5/89

"North Korea Acknowledges Exchange Between ROK and USSR"

Gerasimov states, in an NHK TV interview, that Shevardnadze obtained the acceptance of Kim Il-Sung for economic exchanges between USSR and ROK. It is no longer possible to ignore the economic significance of ROK, Gerasimov stated on Japanese television.

1/5/89



1/7/89

北韓통과 韓~蘇 送油管추진

鄭周永씨 訪蘇때 蘇가스導入… 北韓 간접동의

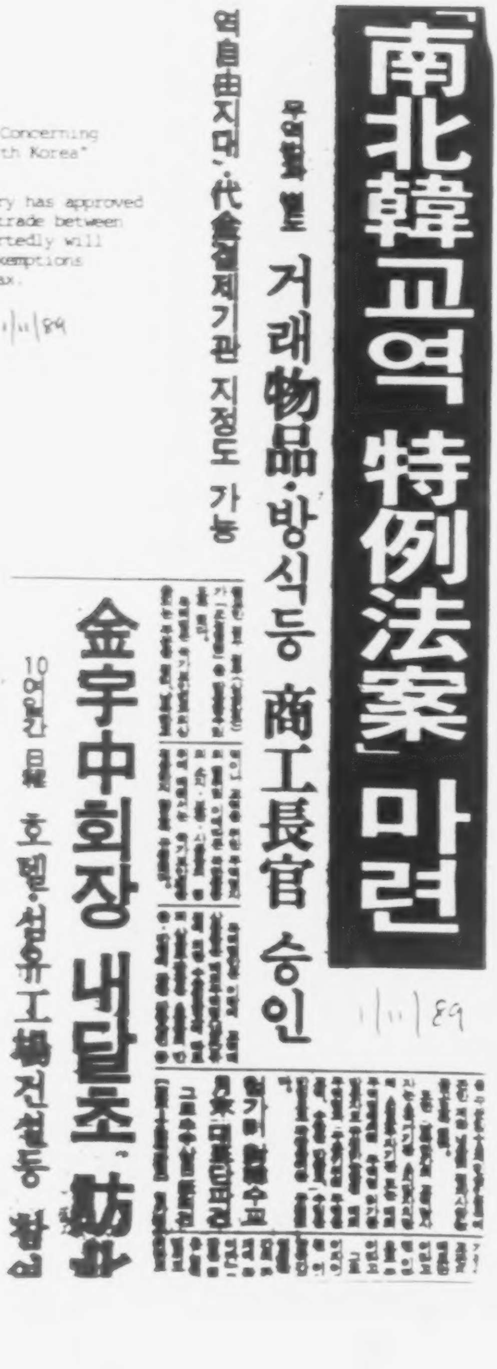
북한에 大宇중장비·進道모피공장 건설도

鄭周永씨

"Promotion of Oil Pipeline Between USSR and ROK through North Korea"

Chung Joo-Young, Chairman of Hyundai, left for the Soviet Union yesterday, intending to promote the construction of oil and gas pipelines from Siberian fields to South Korea through North Korea. Chung plans to visit North Korea later this month.

1/7/89



「南北韓교역 特例法案」마련

[illegible] 별도 거래物品·방식등 商工長官 승인

역自由지대·代金결제기관 지정도 가능

1/11/89

金宇中회장 내달초 訪北

10여일간 日程 호텔·섬유工場건설등 협의

"Preparation of Special Law Concerning
Trade Between South and North Korea"

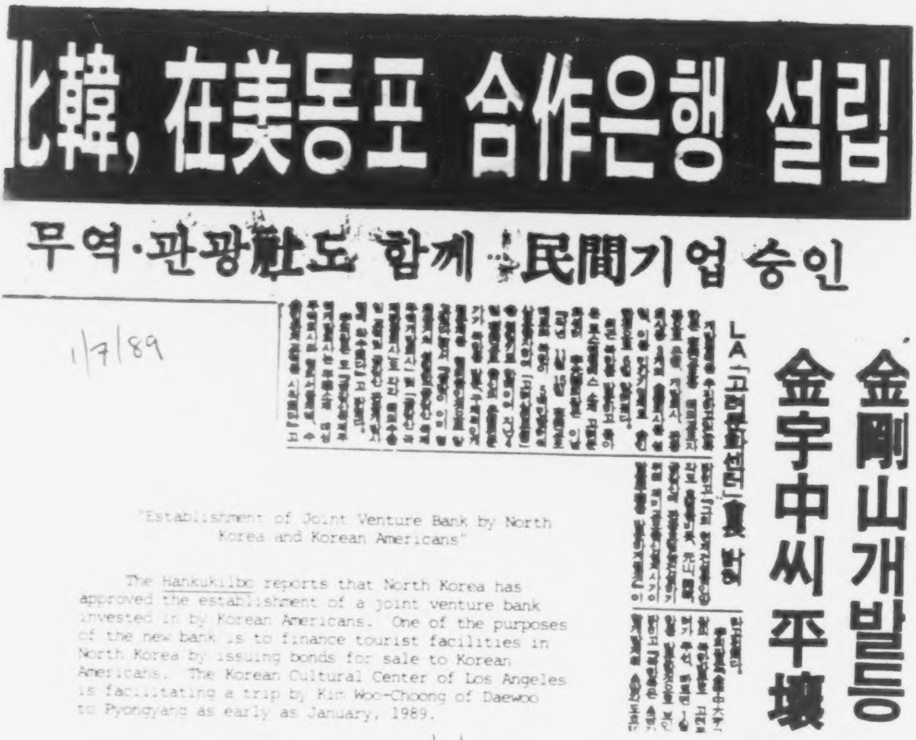
The Minister of Trade and Industry has approved the preparation of a bill regulating trade between South and North Korea. The bill reportedly will include special tax breaks, such as exemptions from customs duties and the Defense Tax.

1/11/89

"Kim Woo-Choong to Visit North Korea
in Early February"

Kim Woo-Choong, Chairman of Daewoo, plans to visit North Korea for 10 days to discuss various projects including construction of hotel and textile factory facilities.

1/11/89



北韓, 在美동포 合作은행 설립

무역·관광社도 함께 民間기업 승인

金剛山개발등 金宇中씨 平壤

LA「고려문화센터」側 밝혀

1/7/89

"Establishment of Joint Venture Bank by North Korea and Korean Americans"

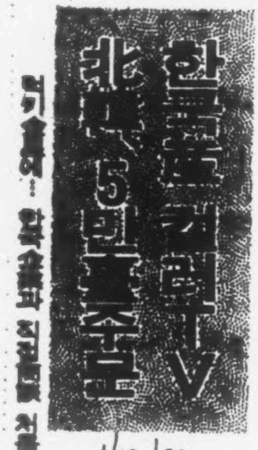
The Hankukilbo reports that North Korea has approved the establishment of a joint venture bank invested in by Korean Americans. One of the purposes of the new bank is to finance tourist facilities in North Korea by issuing bonds for sale to Korean Americans. The Korean Cultural Center of Los Angeles is facilitating a trip by Kim Woo-Choong of Daewoo to Pyongyang as early as January, 1989.

1/7/89

"North Korea Orders 50,000 Color TV Sets Manufactured in South Korea"

Lucky Gold Star has received an order for 50,000 color TV sets from North Korea. This is the first time such an order has been directly made. There are some details to be worked out, for example, whether the sets will be sold with the Gold Star trademark. Payments are to be in fish products and minerals.

1/12/89



한국産 컬러TV 北, 5만臺 주문

[illegible] 처음

1/12/89

1/19

Two S.K. Firms Look At U.S.S.R., China

Seoul Studies Plans for Hotels, Farmland

SEOUL (AP) - Two South Korean firms are studying plans to invest millions of dollars in hotel and agricultural development projects in the Soviet Union and China, government and company officials said recently.

Daewoo Corp., the holding firm of the giant Daewoo Group, said two senior Soviet officials will visit Seoul later this month to continue negotiations on a $75 million hotel project in Moscow.

Daewoo refused to disclose details, but said it hoped this month's talks would produce a conclusion.

One local newspaper, without identifying the source of its information, said Daewoo would have a 49 percent share in the 400-room hotel. The remaining 51 percent share would be owned by the Soviet government, it said.

The same report said the Moscow project is part of Daewoo's plan to set up a hotel chain in several communist nations, including Hungary and China.

Government officials also said five state agricultural experts have left for a second round of feasibility studies on a Chinese proposal for the cultivation of 247,000 acres of barren land in northeast China.

The Korean team, led by Chang Duck-chin, chairman of the state-run Agricultural Development Corp., will survey the area along the Songhua River in China's Heilongjiang province, the officials said.

diplomatic relations with any other communist nations.

South Korea's two-way trade with communist almost doubled to $3 billion last year, according to industry figures.

Hungary, S.K. to Have Ambassadors

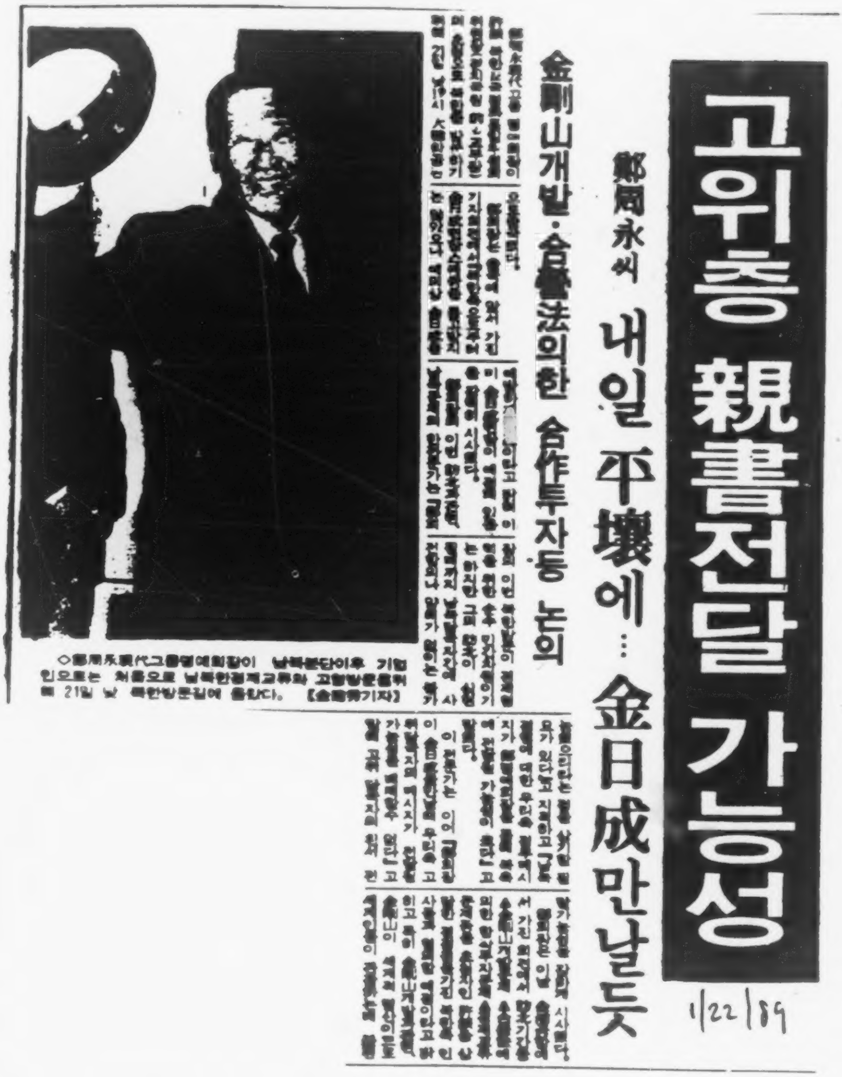
1/14

SEOUL (AP) - South Korea and Hungary will upgrade the status of their permanent missions to the ambassadorial level early next month, the Yonhap News Agency reported Jan. 13.

Quoting unidentified government sources, the South Korean news agency said Hungarian Vice Foreign Minister Horn Gyula will visit Seoul later this month to finalize the move.

The decision would make Hungary the first communist nation to open full diplomatic relations with anti-communist South Korea.

The two countries exchanged permanent missions, which have a quasi-diplomatic status, last October and December following an agreement to establish ambassadorial-level relations in the future.



고위층 親書전달 가능성

鄭周永씨 내일 平壤에… 金日成만날듯

金剛山개발·合營法의한 合作투자등 논의

○鄭周永現代그룹명예회장이 남북분단이후 기업인으로는 처음으로 남북한경제교류와 고향방문을위해 21일 낮 북한방문길에 올랐다. 【[illegible]기자】

1/22/89

"Delivery of High Level Personal Letter Possible"

Chung Joo-Young of Hyundai leaves for Pyongyang tomorrow. It looks as if he will meet Kim Il-Sung. He plans to discuss investment and development of Kumgang San under the North Korean Joint Venture law.

1/22/89

Trade Offices To Open Up in Seoul, Moscow

1/24/89

SEOUL (UPI) - Vladimir Gosanov, vice president of the Soviet Federal Chamber of Commerce, met South Korean officials Jan. 23 to discuss details for the opening of a Soviet trade office in Seoul in March.

Gosanov visited the state-run Korea Trade Promotion Corp. (KOTRA) with which the Soviet Chamber of Commerce signed an agreement on Dec. 2 last year to exchange trade offices.

Golanov and KOTRA President Lee Sun-ki discussed in details various questions related to the opening and operation of the trade offices to be stationed in each other's capitals, officials said.

The Soviet Federal Chamber of Commerce and KOTRA will sign an agreement to mutually guarantee security for members of the planned trade offices in their respective countries, and arrange for tax exemptions for goods brought in or locally purchased by them.

The agreement will also provide that the two parties help each other to facilitate the opening of the proposed offices and render assistance in recruiting local employees, the officials said.

Meanwhile, the nationally circulated daily Dong-A Ilbo said, quoting government officials, that Seoul authorities had proposed to Gosanov to upgrade the trade offices to be semiofficial diplomatic channels.

Two Koreas Exchang
Letters on Meetings

Stage Set for Prime Minister Talks

1/24/89

SEOUL (UPI) - South and North Korea exchanged letters Jan. 23 setting up a preliminary contact for talks between high-level authorities and a sports officials meeting to discuss sending a single Korean team to the 1990 Asian Games in Beijing.

Prime Minister Kang Young-hoon sent a letter to his northern counterpart Yon Hyong-muk, accepting a preliminary meeting on Feb. 8 to set the stage for unprecedented prime ministers' talks on a wide range of topics concerning reduction of tensions in Korea.

Kim Yu-sun, president of the North Korean National Olympic Committee, sent a letter to his southern counterpart Kim Chong-ha agreeing to a Seoul proposal for a sports officials' meeting on March 9 on forming a single Korean squad for the Beijing games.

The letters were exchanged through the truce village of Panmunjom 35 miles north of Seoul where the proposed contacts will take place.

"I am pleased that you have accepted talks between high-level delegations led by the prime ministers f
comprehensive discussions on bu
ding up mutual trust and eas
tension," Kang said in his letter.

Kang said there exist some differe
ces over the official name and agen
of the proposed high-level talks l
the differences could be ironed
easily through sincere negotiati
at preliminary talks.

"If the prime ministers travel
and from (the two capitals of) Se
and Pyongyang, wipe out the lo
standing distrust and misunderst
ding between the two sides
resolve pending issues, an epo
turning point could be provide
improve South-North relations
speed up national reunificat
Kang said.

The South prefers to call the pr
sed sessions "talks between h
level authorities" of the South
the North. The North insists
they should be named "high-l
politic and military talks" w
should be attended by "mil
chiefs" as well.

North Korea apparently wan
place emphasis on military topi
the proposed talks, such as
withdrawal of U.S. forces from S
Korea, communist affairs expe
Seoul said.

If materialized, the prime min
talks will be negotiations a
highest level between the two K
which were divided at the e
World War II in 1945.

Kim Yun-sun, head of the
Korean National Oly
Committee, said in his letter t
was glad the South had accept
Dec. 21 proposal that the two
discuss forming a single delega
be sent to Beijing for the 11th
Games next year.

Kim said he will send
member team led by a vice pr
of his committee to the sc
sector of the truce village on
8.

"If the North and the Sou

South Korean Students Vote for Gorbachev as Top World Leader

Spirit of Glasnost Touches South Korea

1/26/89

By K. CONNIE KANG
Examiner Seoul Bureau

SEOUL - South Korean university students recently voted Soviet President Mikhail Gorbachev the world's top international leader.

Such an action would have been unthinkable just six months ago in this staunchly anti-communist nation, which has always considered the Soviet Union an archenemy.

But things are different now, and the students' views, as reflected in a poll by one of the nation's top television networks, are just one sign of the Soviet "boom" that is sweeping across the southern half of the divided Korean Peninsula, which has no diplomatic relations with the Soviet Union.

REPRINTED FROM
S.F. EXAMINER

To an extent the thaw has been engineered and encouraged by the South Korean government, which has been seeking to distract attention from domestic political problems. Nonetheless, its pace has surprised just about everyone here, even Soviet experts such as Lee In-bo, Harvard-educated professor of Russian history at the prestigious Seoul National University.

"Just a few months ago, I couldn't even get (Russian) books for my classes," said Lee. "Now, students are going to visit the Soviet Union. It's incredible."

for the change. The Games, held in Seoul, gave nations with "different perceptions and images" of South Korea a chance to come, see, and go away impressed.

The doors open

Since the Olympics, these developments have taken place:

South Korea and the Soviet Union have agreed to open trade offices in each other's capitals and participate in joint trade projects.

In addition, said Lee Sun-ki, president of the government-run Korea Trade Promotion Corp., the Soviet Union has asked Korea for $ 300 million to finance and build a mammoth furniture plant and other facilities in Siberia. It wants to repay the loan and interest by delivering lumber to timber-strapped Korea.

The Soviet Union has asked Korean businesses to build hotels, health facilities and plants to produce constuction materials in Moscow and other large cities. It also wants the South Korean government to open a direct shipping route between Vladivostok in the southeastern tip of the Korean Peninsula.

In return, Soviet officials promised to help Korean contractors get a foothold in construction markets in other socialist nations, such as South Yemen and Algeria, according to Hong Soun-ghil, president of the Overseas Construction Association of Korea.

North Koreans Strike Oil in The Yellow Sea

SEOUL (AP) - A newly discovered North Korean offshore oil field has a production capacity of 200 barrels of crude oil per day that could be promising economically, a South Korean newspaper reported Jan. 25.

The influential Chosun Ilbo, quoting foreign and domestic sources, said North Korea struck oil in the Yellow Sea about 62.5 miles off its western coast last year.

The North Korean oil well is less than 31 miles from the western sea extension of the Military Demarcation Line that separates the two Koreas roughly along the 38th parallel, the daily said.

It was North Korea's first oil find within its territory. North Korea drilled 11 wells in search of oil along its continental shelf in the Yellow Sea last year, but only one proved to be economical, the paper said.

The North Korean oil find first came to light when the communist state's external trade minister, Chung Song Nam, sought technical help to tap the well from Iran late last year, the paper said. Details, however, were not disclosed, it added.

The North Korean well, located at the edge of an active Chinese offshore oil field, could be promising economically but its feasibility would be determined only after the drilling of several test wells in the area, the paper said. North Korea is seeking technical help from Australia as well as Iran, it added.

South Korea has also drilled 13 wells along its part of the continental shelf, but none have been successful.

Soviet Delegation To Visit So. Korea

SEOUL (AP) - Fisheries officials from the Soviet Union will visit Seoul next month to discuss possible joint ventures and ways to increase trade, news reports said Jan. 25.

A 10-member Soviet delegation

Hyundai Potentate Meets N.K.'s Ho Dam

Visit May Cement Some Joint Ventures

1/26/89

TOKYO(AP) - South Korean business tycoon Chung Joo-young has met in Pyongyang with Ho Dam, a leading member of the North Korean Workers' Party, Pyongyang's official news agency reported Jan. 25.

The Korean Central News Agency, monitored in Tokyo, said Chung and Ho conversed Jan. 24 along with Chon Gum-chol, vice chairman of the Committee for the Peaceful Reunification of the Fatherland, O Mun-han, vice chairman of the North Korean Red Cross Society, and other officials.

It gave no further details.

Ho, a member of the powerful nine-member Secretariat of the ruling party's Central Committee, also serves as chairman of the reunification committee, an official North Korean organization.

Chung, 74, honorary chiarman and founder of the Hyundai Group, South Korea's biggest business conglomerate, arrived in Pyongyang via Beijing Jan. 23 for a 10-day visit to North Korea at the communist country's formal invitation.

Chung is the first known South Korean business leader to visit Pyongyang with approval from both South and North Korea since the division of the Korean Peninsula in 1945.

South Korean officials believe the North Korean invitation to Chung is part of Pyongyang's efforts to revive its sagging economy.

Before leaving Seoul, Chung told reporters he intended to meet with North Korean President Kim Il-sung to discuss economic cooperation between the two Koreas.

North Korean media have said Chung came to North Korea to visit his native town, Tongchon, in the east coast province of Kangwon. He was born there in 1915.

Hyundai Group, Soviets Set Up Joint Venture

1/27/89

SEOUL (AP) - The Hyundai Group will set up a 50-50 joint venture trading and development company with the Soviet Chamber of Commerce in April, Hyundai officials said Jan. 27.

The new company, initially capitalised at $10 million, is being established under a letter of intent exchanged between the South Korean business conglomerate and the Soviet Chamber of Commerce early this week when the Soviet chamber's Deputy Chairman Vladimir Golanov visited here, according to the officials.

The proposed company, the first joint venture between the two coun[illegible]s, plans to build a coastal power [illegible]on and develop petroleum gas [illegible] produce pulp in Siberia among other projects, they said.

The firm's head office will be in Seoul with a branch in Moscow, and Soviet directors for the joint venture will be stationed in Seoul, the Hyundai officials said.

The proposed company will also handle imports of Soviet products such as lumber and industrial raw materials and exports of various Korean products to the Soviet Union.

The Soviet Chamber of Commerce has agreed with the state-run Korea Trade Promotion Corp. to open trade offices in each other's capitals in two months to seek direct trade between the two countries.

South Korea has been trying to improve relations with the Soviet Union and other communist countries to expand its trading base and ease its confrontation with communist North Korea. South Korea has no diplomatic relations yet with any communist nation.

Soviets Offer S.K. Cheap Nuclear Fuel

SEOUL (AP) - The Soviet Union has made an unprecedented offer to supply South Korea with nuclear fuel for Korean power plants, a newspaper reported Jan. 27.

The Soviet government proposed to sell enriched uranium at prices much lower than those offered by the United States, a main supplier for South Korea, said the daily Joong-Ang Ilbo, quoting sources at the Energy and Resources Ministry and another government agency.

No official confirmation was immediately available.

Soviet authorities made the offer toward the end of last year when an unidentified South Korean government official visited Moscow, the Joong-Ang said.

The government was studying the Soviet offer but has not yet decided what to do as it is a matter requiring a policy decision, the paper said.

South Korea has eight nuclear power plants in operation and is building three more and so far gets nuclear fuel from the United States and France under long-term supply contracts.

All local nuclear power stations are operated by the state-run Korea Electric Power Corp.

South Korea is building its own nuclear fuel processing facility, and authorities may not want to upset longtime suppliers by buying nuclear fuel from the Soviet Union.

North Korea Willing to Start Joint Venture with the South

1/21/89

SEOUL (AP) - Communist North Korea has expressed its willingness to start trade and joint venture projects with its capitalist rival, South Korea, the South's government announced Jan.19.

The Ministry of Trade and Industry said North Korea made its intentions known when one of its trade officials met with a South Korean businessman in Tokyo last month.

The announcement said that with prior government approval, Lee Kang-sae, a vice president of Sunkyong Ltd., a leading Seoul trading firm, had business talks with a senior North Korean trade official at a Tokyo hotel on Dec. 30.

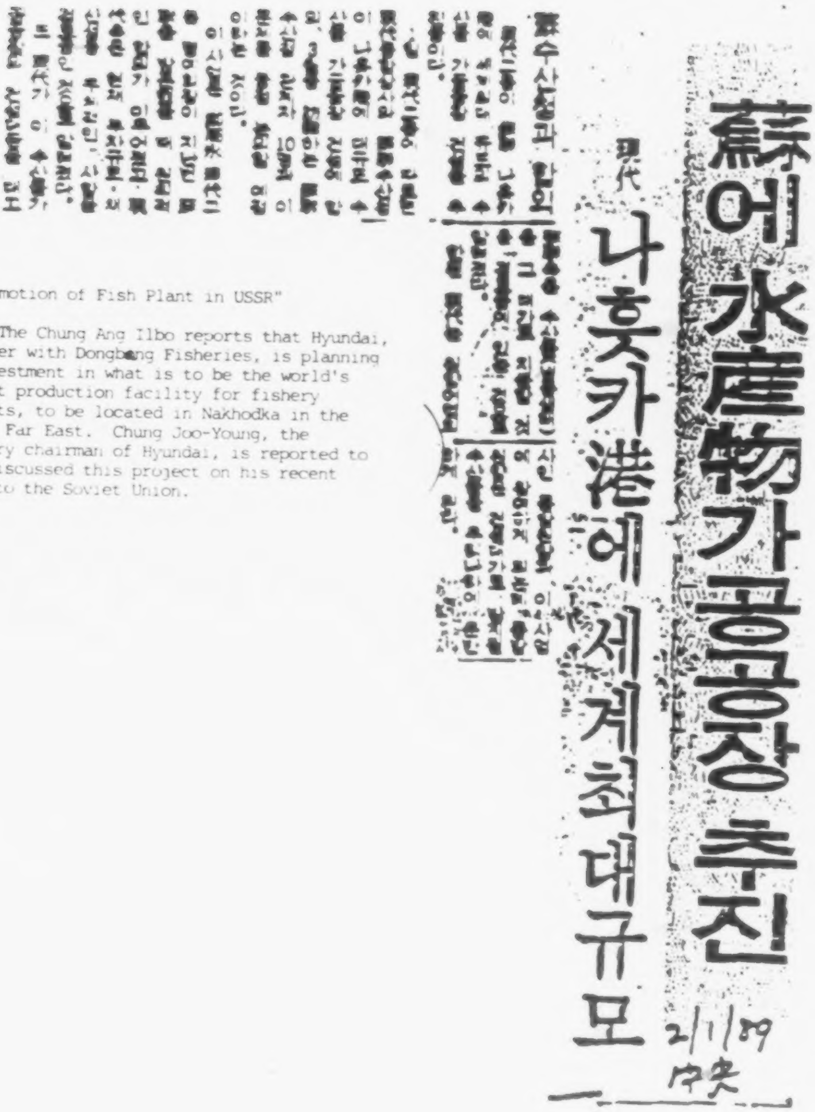
Ministry officials said they know who the North Korean official is but they are committed not to identify him.

In the talks, the North Korean official told Lee that the Pyongyang government intends to lend "active support" to any joint venture projects between business firms of the two sides, the announcement said.

"The two sides discussed wide-ranging measures to promote trade, especially in the areas of textiles and mining products, and the North Korean side was more enthusiastic about starting joint projects," it said.

The announcement came on the eve of a 10-day visit to North Korea by South Korean business tycoon Chung Ju-yung to discuss investment and joint venture projects in the communist state. The government gave formal authorization Jan. 19 for Chung's trip, scheduled to start Jan. 23.

Chung, 74, honorary chairman of the giant Hyundai group, will be accompanied on the trip by a personal secretary and two executives specialising in civil engineering and plant construction.



蘇에 水産物가공공장 추진

現代 나홋카港에 세계최대규모

2/1/89
中央

"Promotion of Fish Plant in USSR"

The Chung Ang Ilbo reports that Hyundai, together with Dongbang Fisheries, is planning an investment in what is to be the world's largest production facility for fishery products, to be located in Nakhodka in the Soviet Far East. Chung Joo-Young, the honorary chairman of Hyundai, is reported to have discussed this project on his recent visit to the Soviet Union.

"Direct South-North Sea Lane Trade Between Nampo and Inchon"

The Hyosung Company of South Korea imported 20,000 tons of coal from the North Korean port of Nampo by a direct sea route for the first time since 1945, the Panamanian flag vessel arriving in Inchon the afternoon of February 1, 1989. The voyage from Nampo to Inchon passed through international waters and took 15 hours. Samsung plans to import frozen pollock and both Samsung and Ssangyong plan to import coal, using a direct route.

2/1/89

보　　1989年2月1日 (水曜日

南浦출항 仁川着 南北 直航路교역

解放후 처음 北韓무연탄신고 오늘下午 入港

파나마船 이용 2萬톤 수입 曉星

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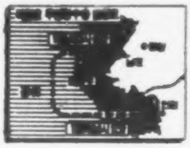

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2/1/89

Hyundai Tycoon and N.K. Tie Biz Deals

S.K. May Approve Mt. Kumgang Project

2/2/89

TOKYO (AP) - South Korean business tycoon Chung Joo-young has reached agreement with North Korea to join in developing a North Korean tourist resort and undertaking projects in the Soviet Union, Pyongyang's official media reported Feb. 1.

The Korean Central News Agency, monitored in Tokyo, said the agreement came when Chung met with Choe Su-gil, director of North Korea's Taesong Bank and consultant to the Korean Association for the Promotion of Asian Trade.

Chung, 74, honorary chairman and founder of the Hyundai Group, South Korea's largest business conglomerate, was the first known South Korean business leader to visit Pyongyang with the approval of both the South and the North Korean governments since the Korean Peninsula in 1945.

Chung, whose native town of Tongchon is in the North, was invited by the North Korean government.

The agency gave few details on the joint venture agreements, which it said proceeded "from the common desire to strengthen cooperation between the North and the South and promote the peaceful reunification of the country."

Chung and Choe reached an agreement in principle on jointly developing North Korea's Mount Kumgang area "into a world-renowned tourist spot" and "adopted a kind of protocol about the way of securing funds for joint development," subject to approval by authorities of each side, it said.

North Korea adopted a joint venture law in 1984, but so far has failed to lure any significant foreign investment.

The agency said Chung, who already had consulted with the Soviet Union, also proposed joint North-South Korean participation in development projects in Siberia and the Soviet Far East, and North Korea agreed.

The agency said Mount Kumgang is near Chung's hometown, on the east coast, which he had left more than 50 years ago.

In an interview in Pyongyang Jan. 31, Chung said he believed South Korean authorities would approve the Kumgang project "because it is a matter related to peace and reunification," the agency reported.

It said he added: "Dialogue and exchange between the North and the South are now in an impasse and there are people who have different views. However, if like-minded people strive to make them understand things, the difficulties will be overcome and this work will be successful."

North-South Fur Venture Studied By Jindo Corp.

1/27/

SEOUL (AP) - Jindo Corp. of South Korea, the world's largest producer of fur goods, is studying a plan to construct a joint venture fur plant in communist North Korea, Jindo officials said Jan. 26.

"We are collecting information about the North Korean proposal through our offices in Hong Kong, Frankfurt and New York," Jindo Executive Director Kim Jin-young said.

Kim declined to disclose details, but local newspapers, quoting industry sources, reported that Jindo received a joint venture proposal from North Korean officials at a recent fur auction in Moscow.

Jindo officials believe North Korea's proposal is feasible because of that country's low wages and skilled labor, the reports said.

Capitalist South Korea and communist North Korea have been bitter rivals since the division of their land in 1945, but they recently have begun negotiations to expand economic and other contacts.

A leading South Korean business tycoon is currently in North Korea discussing investment and joint venture projects there.

Hungary and Seoul Agree to Hold Summit of Top Leaders

2/2/89

SEOUL (AP) - Hungary and South Korea agreed Feb. 1 to hold a summit of their top leaders in the near future, a senior Hungarian official said.

Gyula Horn, Hungary's state secretary for foreign affairs, told a news conference that South Korean President Roh Tae-woo agreed to the summit after Horn conveyed a personal letter from Hungarian leader Karoly Grosz.

Horn said Grosz, secretary-general of Hungary's ruling Socialist Workers' party, proposed a meeting with Roh and the South Korean president "most welcomed" the offer.

"After appropriate arrangements are made, the summit will take place in the not-too-distant future," he said.

Earlier in the day, Horn signed an accord to upgrade Hungary's relations with South Korea to the ambassador level, making Hungary the first communist nation to fully recognize anti-communist South Korea.

The two countries also signed Feb. 1 three other accords calling for cultural and economic exchanges and visa exemption for diplomats and official passport-holders.

Horn said that with upgraded diplomatic relations, Hungary and South Korea can expect to strengthen their relations in almost all fields, including economic cooperation.

"It was a decision of utmost significance and the two countries now can expect wide-scale cooperation and partnership," he said.

The upgrading had been expected since September, when Hungary became the first communist nation to agree to exchange permanent missions, with quasi-diplomatic status, with South Korea.

Communist North Korea, a bitter rival of South Korea, condemned the Hungarian decision as an "act of betrayal" and recalled its ambassador in Budapest in protest.

2/3/89

Seoul, Moscow To Open Trade Offices

S.K. Agreement with China Also Pending

SEOUL (AP) - South Korea and the Soviet Union announced recently they would open trade offices in each other's capitals in two months and local news reports said an agreement with China was expected soon.

"Now we are to make concrete steps for developing our business ties," said Vladimir Golanov, deputy chairman of the Soviet Chamber of Commerce.

"The trade offices will give a direct link between Soviet organizations and South Korean businesses," he said in a press conference.

The Seoul government, staunchly anti-communist for four decades, has sought to improve relations with the two largest communist nations in order to expand its trading base and ease its confrontation with communist North Korea.

South Korea does not have full diplomatic relations with any communist nation. Last year it exchanged trade offices with Hungary and Yugoslavia.

Golanov negotiated the agreement with Lee Sun-ki, president of the state-run Korea Trade Promotion Corporation and said Moscow's trade office in Seoul to open in March would promote direct trade between the two nations.

Indirect trade through third countries has been contrary to the interests of both South Korea and the Soviet Union, he said.

Golanov signed and exchanged a letter of intent with Lee Myong-bak, chairman of the Hyundai Construction and Engineering Company, to establish a joint-venture company, the first Soviet Union joint venture with a Korean business to develop resources in Siberia.

A spokesman for Hyundai said the joint-venture company would be set up within six months to promote cooperation in industrial fields such as construction, manufacturing and fisheries.

Newspapers in Seoul reported that South Korea and China also were likely to reach a trade agreement by March.

"The two governments, considering the growing trade volume between South Korea and China, share the view that it is desirable for the two countries to exchange trade missions on a government level," said the semiofficial national news agency Yonhap.

Yonhap quoted highly placed government sources as saying "negotiations have been under way between the (South) Korean consulate general in Hong Kong and the Hong Kong branch of the official Xinhua News Agency."

It said the Xinhua News Agency's Hong Kong branch was a diplomatic channel which carries out consular functions.

Yonhap said the trade offices with China would serve as semi-diplomatic channels which would be given consular functions.

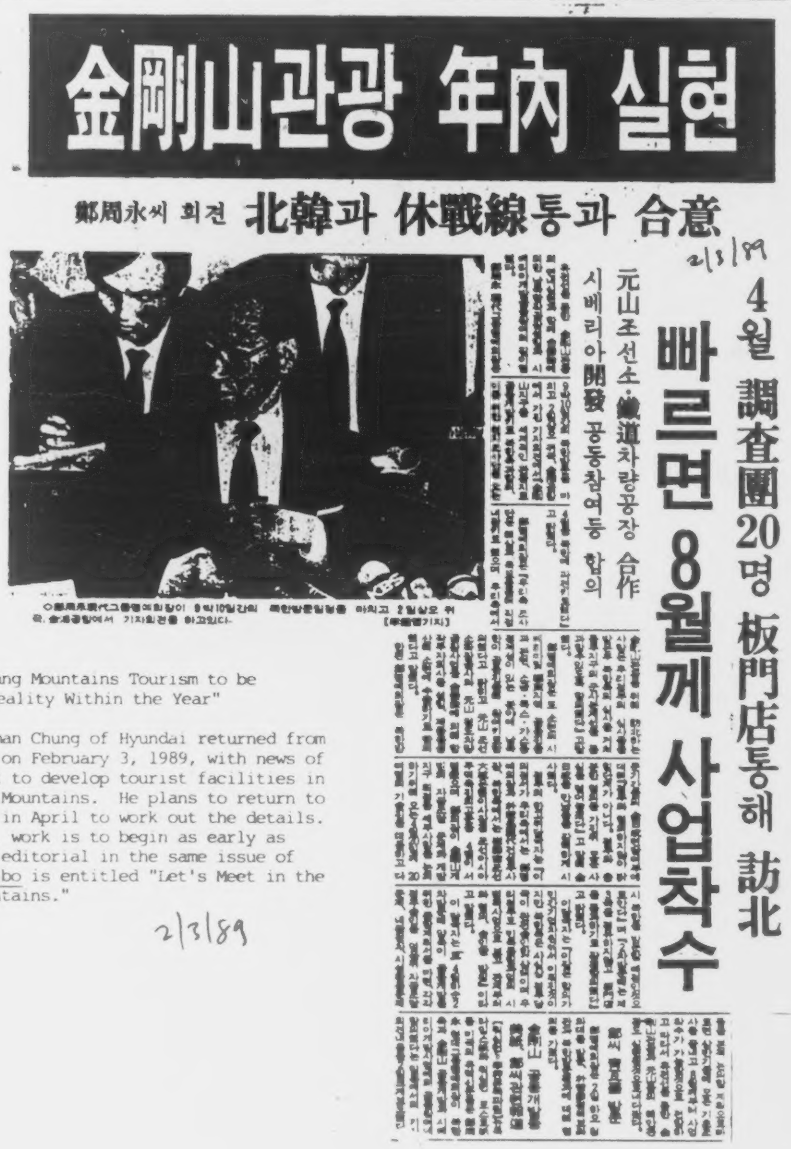
The trade volume between South Korea and China amounted to about $3 billion in 1988, accounting for more than 80 percent of the total volume of Seoul's trade with communist nations.

Soviet and South Korean officials said talks on a "wide range of issues" would be held in the next two months in order to define the functions of the trade offices.

Golanov said the talks included the number of staff, working conditions and communications which would be set up in the two capitals.

He said loans and joint-venture investments would be made possible on the private level.

Poland, Bulgaria and Czechoslovakia also were expected to open trade missions in Seoul later this year.



한 국 일 보 1989年2月3日 (金曜日)

金剛山관광 年內 실현

鄭周永씨 회견 北韓과 休戰線통과 合意

2/3/89

4월 調査團20명 板門店통해 訪北

빠르면 8월께 사업착수

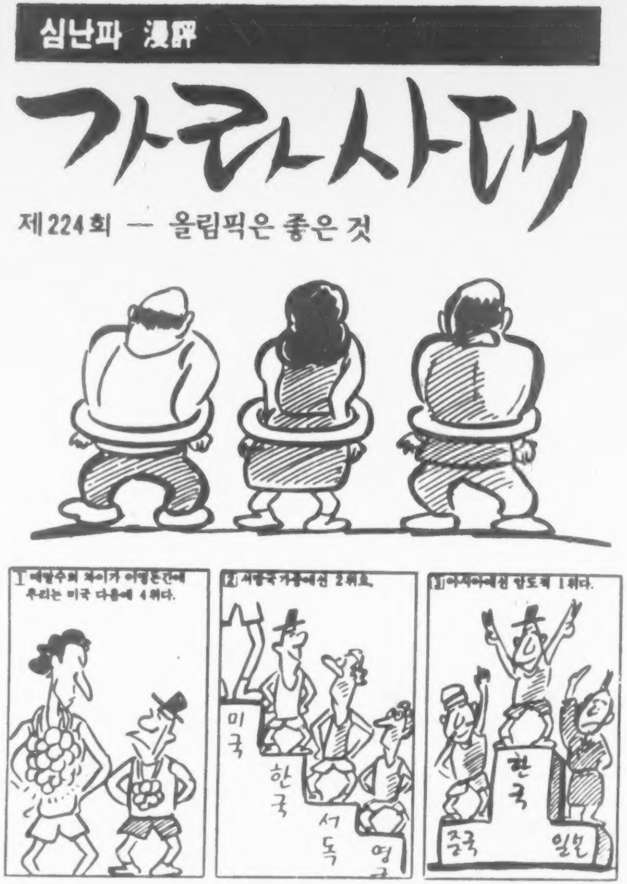
元山조선소·鐵道차량공장 合作

시베리아開發 공동참여등 합의

"Kumgang Mountains Tourism to be
Reality Within the Year"

Chairman Chung of Hyundai returned from North Korea on February 3, 1989, with news of an agreement to develop tourist facilities in the Kumgang Mountains. He plans to return to North Korea in April to work out the details. If possible, work is to begin as early as August. An editorial in the same issue of the Hankukilbo is entitled "Let's Meet in the Kumgang Mountains."

2/3/89

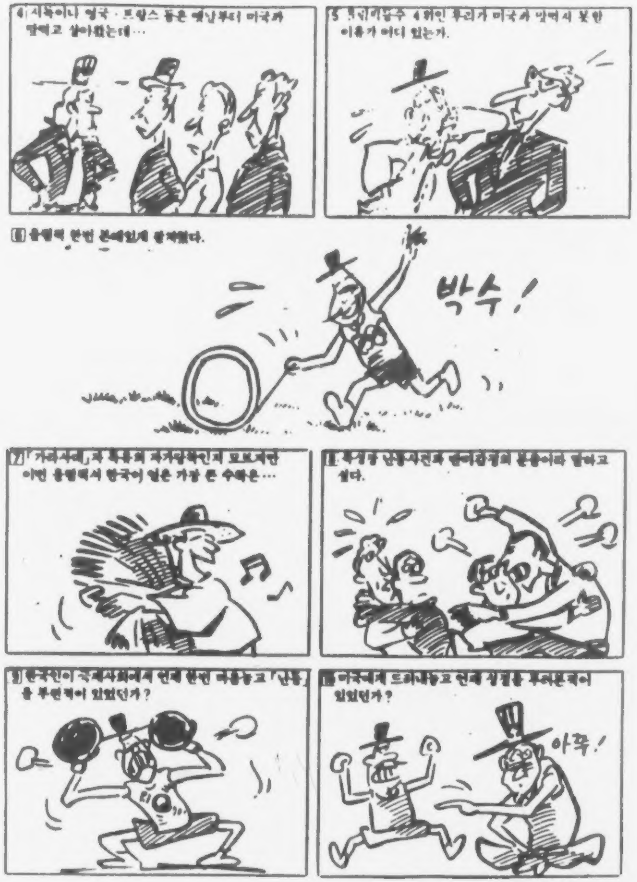

심난파 漫評
가라사대
제224회 — 올림픽은 좋은 것
1 메달수의 차이가 어떻든간에 우리는 미국 다음에 4위다.
2 서방국가중에선 2위요.
미국
한국
서독
영국
3 아시아에선 압도적 1위다.
한국
중국
일본

CARTOON COMMENT
By Shim Nanpa

Hankukilbo, October 19, 1988.

No. 224 - The Olympics Are a Good Thing.

1. Never mind that there was a big difference in the total number of medals, we came in fourth place, just behind the United States.
2. Among the Western Bloc countries, we were second.
3. We were first in Asia.



4. For many years, countries like West Germany, England, and France have been on equal footing with the United States.

5. Is there any reason why our country, which was fourth in the Olympics, can't be equal to the United States?

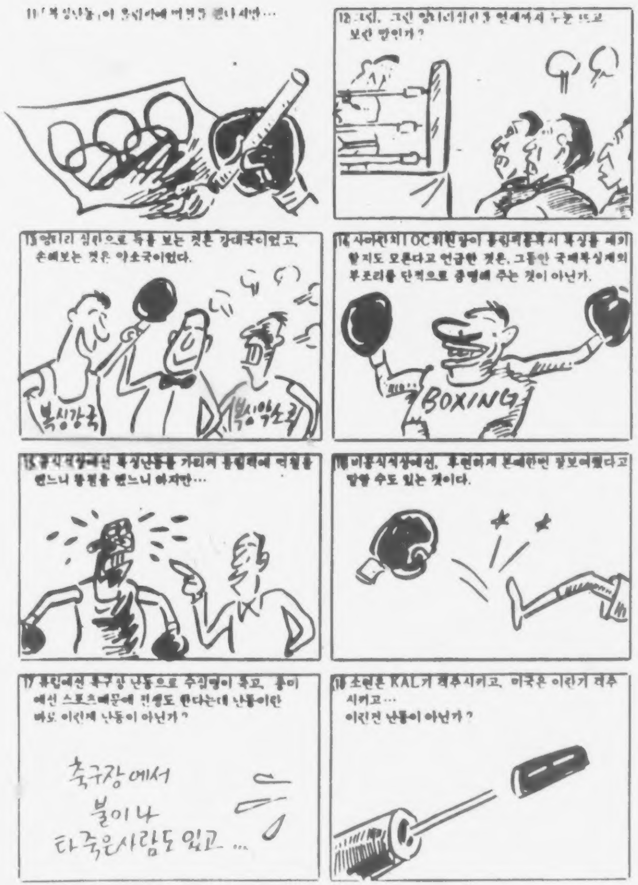
6. We really did a great job of putting on the Olympics. "Applause!"

7. I don't know if it is the self-contradictory nature of the author of this comic strip or not, but the greatest harvest which Korea reaped at the Olympics . . .

8. . . . I would like to say, was the boxing riot and the outpouring of anti-American sentiment.

9. When was it that the Koreans felt free to create a riot on the international scene?

10. When was it that the Koreans have ever expressed their anger openly to the Americans? "Can this really be you?"


11 「복싱난동」이 올림픽에 먹칠을 했다지만…
12 그러나, 그런 엉터리심판을 언제까지 두눈 뜨고 보란 말인가?
13 엉터리 심판으로 득을 보는 것은 강대국이었고, 손해보는 것은 약소국이었다.
복싱강국
복싱약소국
14 사마란치 IOC위원장이 올림픽종목서 복싱을 제외할지도 모른다고 언급한 것은, 그동안 국제복싱계의 부조리를 단적으로 증명해 주는 것이 아닌가.
BOXING
15 공식적으로는 복싱난동을 가리켜 올림픽에 먹칠을 했느니 똥칠을 했느니 하지만…
16 비공식적으로는, 후련하게 혼내줬다고 말할 수도 있는 것이다.
17 유럽에선 축구장 난동으로 수십명이 죽고, 중미에선 스포츠때문에 전쟁도 한다는데 난동이란 바로 이런게 난동이 아닌가?
축구장에서
불이나
타죽은사람도 있고 ...
18 소련은 KAL기 격추시키고, 미국은 이란기 격추시키고…
이런건 난동이 아닌가?

11. It is said that the boxing violence left a black mark on the Olympics, but . . .

12. . . . how long do you expect us to watch the lousy judging with both eyes open?

13. The benefits from the lousy judging went to the big strong countries, while the damages went to the small weak countries.

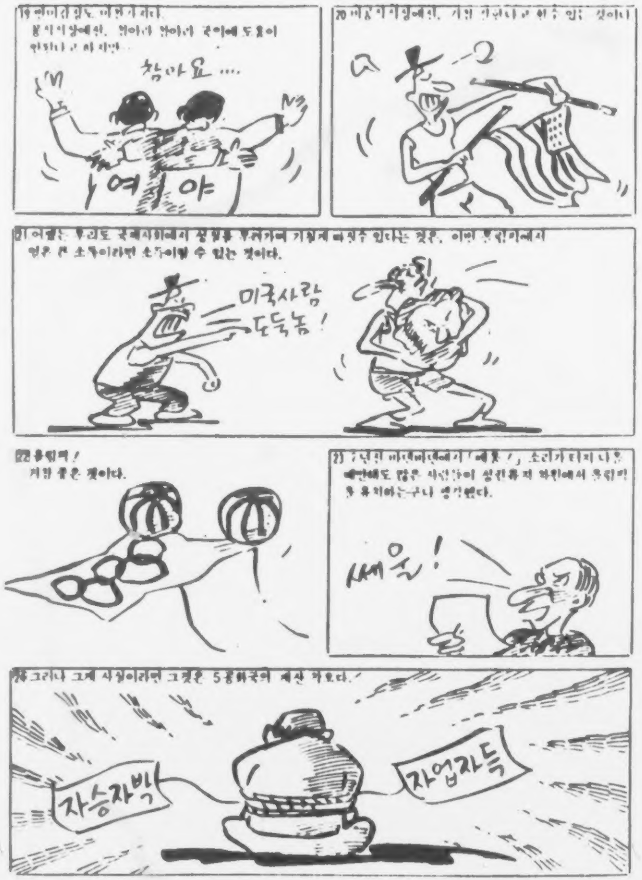
14. Doesn't the fact that Chairman Samaranche of the I.O.C. announced that boxing might be excluded from the Olympics clearly prove that there was something wrong with international boxing all along?

15. In public, pointing to the boxing violence, one can say that the Olympics were be-smudged and be-smeared, but . . .

16. . . . in private, we can say that we really showed them and it feels great.

17. In Europe, hundreds died in the soccer violence and in Central America, war even broke out because of sports . . . isn't this what you would call violence? "A soccer field fire broke out and people were even burned to death."

18. The Soviets shot down the Korea Air Lines plane, and the Americans shot down the Iranian plane. Isn't that violence?



19. It's just the same with anti-American feeling. In public, they say "Keep quiet, keep quiet, for the good of the country," but . . .

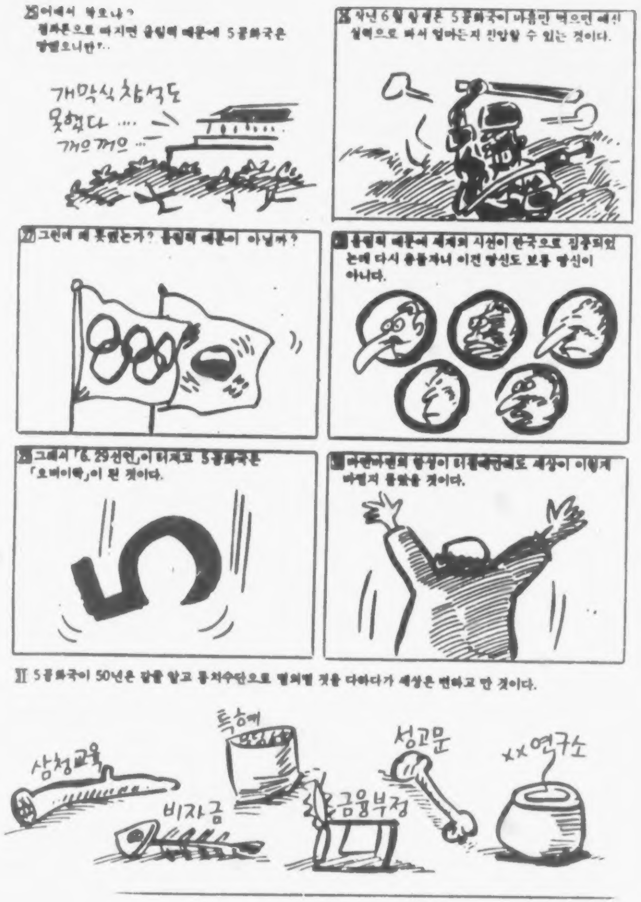
20. . . . in private, we applaud the defiling of the flag.

21. Anyhow, the fact that we, too, can now loudly demand explanations and express our anger in international society can be called a big benefit from the Olympics, if you can call it a benefit. "American thief."

22. The Olympics! Really a good thing.

23. Seven years ago in Baden-Baden, when the word "Seoul" first popped out, many people thought, "Oh, they're hosting the Olympics to hold on to political power."

24. But if this was the case, the Fifth Republic miscalculated. "Heist on his own petard; That which ye sow, so also shall ye reap."


작년 6월 항쟁은 5공화국이 마음만 먹으면 예의 실력으로 봐서 얼마든지 진압할 수 있는 것이다.
개막식 참석도 못했다 .... 개으꺼으 ...
그런데 왜 못했는가? 올림픽 때문이 아닌가?
5
Ⅱ 5공화국이 50년은 갈줄 알고 통치수단으로 별의별 것을 다하다가 세상은 변하고 만 것이다.
삼청교육
비자금
특혜
금융부정
성고문
xx연구소

25. Why is it a miscalculation? If you argue in terms of the outcome, the Fifth Republic perished because of the Olympics. "He didn't even get to participate in the opening ceremony, ho-ho-ho."

26. If the Fifth Republic had decided to suppress the uprising in June of last year, they could easily have done so from what we know of their past capabilities.

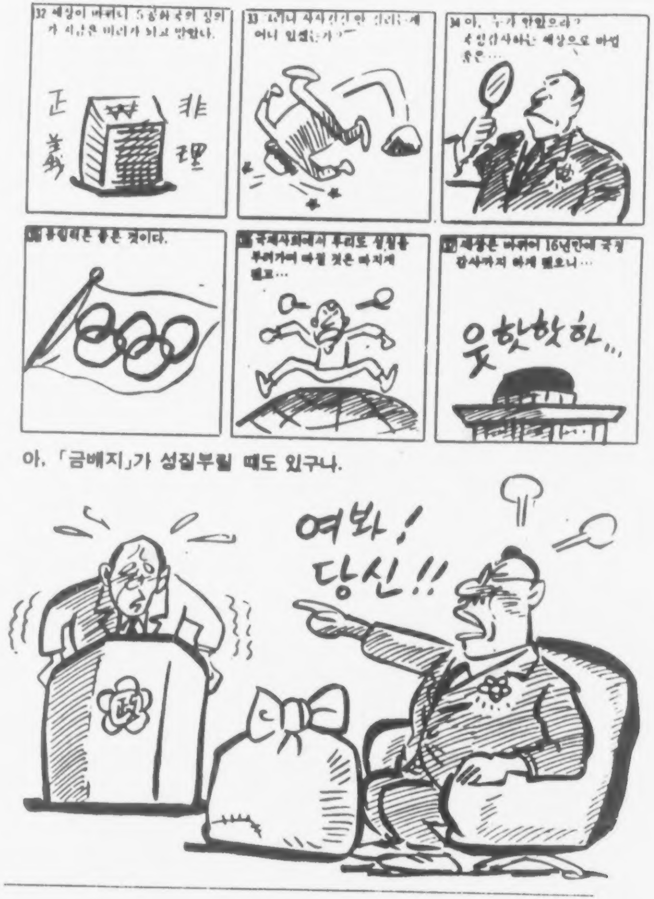
27. Then why weren't they able to do it? Wasn't it because of the Olympics?

28. Because of the Olympics, the eyes of the world were focused on Korea and, if they had taken up arms, it would have been a disgrace, and not just an ordinary disgrace.

29. And, so, the June 29 proclamation was issued and the Fifth Republic fell.

30. At the time the announcement in Baden-Baden was made, no one could have expected that the world would change this much.

31. The Fifth Republic, thinking that it would last for 50 years, tried all sorts of methods to rule the country, but the world ended up changing. "Samchong Re-education, special privilege, sex torture, secret funds, financial fraud, X Research Institute."


32 세상이 바뀌니 5공화국의 정의가 지금은 비리가 되고 말았다.
正義
非理
33 그러니 사사건건 안 걸리는 게 어디 있겠는가?
34 아, 누가 알았으랴? 국정감사하는 세상으로 바뀔 줄은…
35 올림픽은 좋은 것이다.
36 국제사회에서 우리도 성질을 부려가며 따질 것은 따지게 됐고…
37 세상은 바뀌어 16년만에 국정감사까지 하게 됐으니…
웃핫핫하…
아, 「금배지」가 성질부릴 때도 있구나.
여봐! 당신!!

32. Since the world has changed, the justice of the Fifth Republic now turns out to be corruption.

33. And, so, what doesn't he get tripped up for?

34. Who would have known that it would turn into a world where the government would be subject to audit and inspection?

35. The Olympics is a good thing.

36. We now have come to demand explanation where an explanation should be demanded, showing our anger in international society.

37. The world has changed and, now, after 16 years, we can have audit and inspection of the government. "Ha-ha-ha-ha."

Ah, now it is time for the one with the golden badge to get angry. "Look here, you!"

Senator ADAMS. Thank you very much, Mr. Baskerville.

Our next witness is Mr. Timothy Manring, an attorney—I'll try it—Lubis, Hadiputranto, Ganie & Surowidjojo.

Now you give it. [Laughter.]

Mr. MANRING. That's not too far off.

Senator ADAMS. Mr. Manring will discuss not only Indonesia, but the Philippines.

We look forward very much to your testimony.

Senator CRANSTON. Would you say that again? [Laughter.]

Mr. MANRING. Our receptionist at the office pronounces it L-H-G-S. It's Lubis, Hadiputranto, Ganie & Surowidjojo.

STATEMENT OF TIMOTHY A. MANRING, LUBIS, HADIPUTRANTO, GANIE & SUROWIDJOJO

Mr. MANRING. Thank you very much, Chairman Cranston, Senator Adams. It is a pleasure to be here and share my experiences and observations with you in Southeast Asia, in particular, over the last 20-plus years.

I first went to Southeast Asia in 1967 after graduating from the University of California Law School at Berkeley. In 1967 I taught at the law school at the University of Singapore. Among other things, I taught a course to Malaysian and Singapore students on investment and trade law, drawing upon the laws of those two countries, plus the laws of the United States and Canada.

In 1970 I was a Ford Foundation consultant to the Government of the Republic of Indonesia on foreign investment.

After that I came back to Seattle and began practicing law with the Perkins, Coie firm here in Seattle. During that time I spent a good deal of time in Asia working with clients that had business transactions in Asia, including Japan, Singapore, and Indonesia. I also spent some time in Taiwan during that period of time.

In 1978 I went back to Indonesia for a year to practice law with an Indonesian law firm. In 1981 I returned—took a leave of absence from the partnership here in Seattle and returned again to Indonesia, where I lived and practiced law for 4 years.

In 1985 I returned to Seattle and opened a branch office of the Lubis, Hadiputranto, Ganie & Surowidjojo firm here in Seattle. Here we represent primarily American and European businessmen who are doing business with, or in, the Republic of Indonesia.

I've been asked to comment on Southeast Asia generally, and I am happy to do so, although as you will see from my written testimony—which I would like to have submitted, and not read here today——

Senator ADAMS. Without objection, the entire statement will appear in the record.

Mr. MANRING. There are certain countries that I do not spend a great deal of time on. Brunei is one, in part because it's a smaller country, a newly independent country, and a new member of ASEAN. It has only a quarter of a million people, in a small location on the north coast of the island of Kalimantan, formerly called Borneo, between two Malaysian states, Sabah and Sarawak.

I also don't spend a great deal of time upon the Philippines, because I think that there are Members of the Senate, and Congress in general, who are perhaps more knowledgeable than I am on the Philippines, and who have played an impressive and important role in the events that have unfolded there in the last 3 years. It was, after all, 3 years ago this month that former President Marcos was compelled to step down, and the Aquino government took over.

I would like to add one thing in response to what Senator Cranston said in his comments earlier. I agree with him 100 percent that there is a tremendous need for a long-term settlement of the bases issue in the Philippines. As a purely practical matter, that matter being negotiated twice yearly, or even every 3 years, is an enormous disruption to otherwise quite positive relations between the United States and the Philippines. I also think it's important from an American military perspective and security perspective in Asia to have a long-term solution to that.

From the Philippine perspective, it's also important. They have to have some security. And in fact I think one of the things that we should realize is that for the Philippines, for many Filipinos, the American military bases there have a very negative psychological impact. It is like—it creates the kinds of tensions between a son and a father, and a son who needs to grow up and realize he's really independent. And as long as those bases are there, it is difficult for many Filipinos to gain that psychological sense of, "We are independent," and thus creates a great deal of friction between the two.

Now, I'd like to comment on a couple of other things in response to questions that you have asked. I was pleased to hear Senator Cranston mention that Japan has the third-largest military budget in the world. It has the second-largest navy in the Pacific. It is a major military power in the Pacific.

Those who speak rather blandly about wanting Japan to play its own role militarily need to be somewhat careful of the reaction that has in other parts of the world. There are countries in Southeast Asia who are not particularly happy—would not be particularly happy to see Japan increase its military capabilities. They have had some experience with it in the past, and it was not a particularly pleasant experience. They already see Japan as the dominant economic power in Southeast Asia. In many countries of Southeast Asia it is the major foreign investor.

In Indonesia, where there are perhaps more foreign investors than in most other countries, simply because of the size of it, Japan dominates the foreign investment. It is a major trading partner of most countries in Southeast Asia. Its presence is very broadly and widely felt. Its economic influence is very widely felt. There are many people in Southeast Asia who would not like to see an increase in military role added to that economic influence.

Now, Senator Adams, you asked Mr. Roetman if he would comment a bit on why Boeing has had some success, and I think some of his answers were really important. While I was working with Perkins, Coie I did a substantial amount of work for Boeing, and I saw how they operated. And in fact, a lot of the work I did in the international field was doing international finance work for that company.

The important thing I think he mentioned was that they are patient and persistent, and they look to the long term.

Unfortunately, from my experience, there are few American companies who take that viewpoint. Most American companies feel their policies are dictated by the quarterly SEC report that has to be filed, or the annual report. Time and time and time again, in the last 5, 6, 7 years while I have been working specifically with American companies, and in contrast to European companies who are doing business in Indonesia, it is interesting to see the difference in their perspectives.

Very frequently American companies' decisions are based on how it is going to look in the quarterly report, how it is going to look in the annual report. The decisions are very short term. Very, very short-term decisions.

In Indonesia I had occasion, several years ago, to meet and talk with a representative of the Mitsui Trading Co., who has lived in Indonesia for a long time. He said he was there for 8 years before he ever made a sale. No American company would ever permit that. If he hadn't concluded a transaction within a matter of at least a year—I mean, at most, a year—he'd be out. That office would be closed down.

The inability to take a long-term view is, in my view, one of the major factors that closes United States companies out of foreign markets, at least in Japan, and at least in Southeast Asia. And that is in contrast to the views, the perspective, the long-range perspective of many European companies and Japanese companies. They are very patient, build that market slowly, and look to the long term.

Now, I'd like to turn to a few comments away from the questions that you asked, to some of Southeast Asia, and I'd like to focus on four countries: Indonesia, Malaysia, Singapore, and Thailand.

Indonesia is the fifth largest country in the world. It has a population of 175 million people. From east to west, it stretches 3,200 miles. It's basically from Washington to beyond the east coast of the United States. I think it's fair to say that it dominates Southeast Asia.

It dominates in the sense that instability in Indonesia means instability in Southeast Asia. There is no way that that can be avoided. And we had a great deal of instability in Southeast Asia during the 1958 to 1963 period, 1965 period, particularly from 1963 to 1965, when Indonesia was confronting Malaysia. At that time, 1963, it had been created out of the Malay Peninsula, Singapore, Sabah, Sarawak. There was in fact a declared war between those two countries.

Since the new order came into power in 1966, 1967, 1968, there has been, I think, a high degree of stability in Indonesia, and a high degree of stability in Southeast Asia. There has been a substantial amount of economic progress in Indonesia during the 1970's and early 1980's. That was spurred by the increased price of oil. The decline in the oil price had a substantial shock to the Indonesian economy, and I think it has created some dramatic changes in policies and regulations—as mentioned in my testimony—which I think have made it perhaps much stronger economically and politically.

It is going to have to be going through a political transition as President Suharto nears the end of his fifth term in office, and the success of that transition is important to Southeast Asia, and I think to the United States, in that region. It depends in part upon the political skill of President Suharto, and the Indonesian military, which has dominated that country's politics for the last at least 25 years.

Malaysia, just to the north of Indonesia, is a much smaller country, but an important country. Many people have felt that it is going to become one of the next newly industrialized countries, NIC's. Its economy has been impacted by the downturn in the price of oil. It has recovered, and is currently growing at a 6- to 7-percent annual increase a year.

It is, however, going through some very significant political changes.

Senator ADAMS. Mr. Manring, I don't want to cut you off, but we have your written statement, and I would appreciate it if you could begin to wind up so that we could move to Mr. Allen, and then ask questions.

Mr. MANRING. The impact, I think, in Malaysia is the effect of the split between the Malay leadership which has led to the use of political detention without trial of over 100 people, and serious allegations against the judiciary, which I have identified in my testimony.

Let me move quickly to Thailand. It has the most robust economy in Southeast Asia, and is perhaps the most precarious politically. It has just gone through an election, with a new prime minister. It has a history of military intervention. It has a commander of the army, General Chauvalit, who has expressed openly his political ambitions, and I have considerable concern that the army is waiting for the opportunity to step in, as it has many times in the past. And I think that would be a serious, serious problem, and it's something that should carefully be avoided—that should be watched carefully, and avoided by U.S. policymakers, if they have an opportunity to avoid those types of impacts.

And I think I will pause with that.

[The prepared statement of Mr. Manring follows:]

PREPARED STATEMENT OF TIMOTHY A. MANRING

It is a pleasure to testify before the Committee today to share my experience in Southeast Asia over the past 21 years and some current observations. Before moving to the more substantive aspects of my testimony, I would like to mention my own background. I grew up on a farm in eastern Washington, and after graduation from Washington State University in 1962, served as National Affairs Vice President of the United States National Students Association. Beginning in September 1963, I undertook a year of graduate study in Political Science at the American University of Beirut, in Beirut, Lebanon, as a Rotary International Fellow. In 1964 I entered law school at the University of California in Berkeley, graduating in 1967. Following graduation from law school I spent three years in Southeast Asia: from December 1967 until March 1970 as a Ford Foundation Consultant teaching at the Law Faculty of the University of Singapore, in Singapore, and for six months thereafter in Jakarta, Indonesia as a Ford Foundation Consultant to the Government of Indonesia on foreign investment. While at the University of Singapore I taught, inter alia, a seminar on investment and trade law - focusing on Singapore and Malaysia. In Jakarta I organized and taught a Seminar to Government officials on legal and economic aspects of foreign investment and advised Government officials who were negotiating foreign investment transactions.

In late 1970 I returned to the United States to practice law with the Perkins Coie law firm in Seattle. A significant portion of my practice in Seattle involved international transactions, including transactions with Japan, Singapore and Indonesia. In 1978 I took a one year leave of absence from the law firm in Seattle to practice law with an Indonesian law firm in Jakarta. In 1981 I returned to Jakarta for four years to practice law with an Indonesian law firm. In 1985 I returned to Seattle to establish a branch office of the Jakarta-based, Indonesian law firm Lubis, Hadiputranto, Ganie, Surowidjojo. For the past 3 1/2 years I have spent approximately 35% of my time in the firm's Jakarta office. Our office in Seattle primarily advises American and European companies investing in, exporting to, or carrying on other business transactions with, Indonesia. During the past year I have also been involved in an effort - the Pacific Rim Campaign - of the Northwest Regional Office of CARE to raise, over a three year period, $300,000 to support CARE projects in Thailand, the Philippines and Indonesia. In July I visited the CARE project in Indonesia, and in December I met with the CARE Project Office staff in both Thailand and Manila.

The principal purpose of the foregoing summary is to suggest the limits on my testimony. Although I have spent almost 50% of my time since 1967 living in Asia, and substantially more than 50% dealing with Asia, including Japan, Taiwan and Hong Kong, most of that time has been in Southeast Asia, particularly in Indonesia. For this reason I will limit my comments to Southeast Asia, specifically to the Association of Southeast Asian Nations ("ASEAN") and its six member countries: Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

One point I would like to stress at the outset is the importance of not lumping all countries in Asia in the same basket. Although any have experienced the same or similar events over the sweep of history, and there are clearly close historical and current interrelationships, each has its own history, culture, politics, economic drives and perceptions of the world. This is true even within a region such as Southeast Asia or among the member countries of ASEAN.

ASEAN was established in 1967, shortly after the end of the confrontation between Indonesia and Malaysia. It is expressly not a military alliance, although its existence and cooperation on other matters have undoubtedly influenced some military questions: arguments for commonality of military hardware purchases may have affected Indonesia's decision in 1987 to purchase 12 F-16s; the views of other ASEAN countries undoubtedly influenced the decisions of the Philippines Government relating to the American military bases in the Philippines; and cooperation within ASEAN on other matters has undoubtedly facilitated various countries' decisions to carry out bilateral joint military maneuvers.

Nor is ASEAN a free trade association or an economic union. However there have been efforts, with varying degrees of success, at joint investment projects, i.e., identifying specific industrial projects having significance to two or more countries that are owned by two or more ASEAN governments, reducing customs duties on products originating in one of the member countries, and a financial institution, ASEAN Financial Corporation, established in Singapore by state-owned and private banks of the member countries to provide loan financing on commercial terms to private borrowers within ASEAN that affect two or more countries. While these efforts, and other forms of cooperation such as the efforts to establish a regional reinsurance market, and efforts to cooperate on primary commodity marketing, shipping and other matters have not been 100% successful, they have at least created a sense for the need to cooperate, and, perhaps more important, have provided real experience at identifying and working on common problems.

The most visible evidence of cooperation has been ASEAN's diplomatic efforts to resolve the conflict in Kampuchea. Beginning with the formation of the Coalition Government of United Kampuchea in Kuala Lumpur, Malaysia, on 22 June 1982. ASEAN has played a critical role in obtaining recognition of the Coalition Government by the U.N., keeping its disparate parts together and negotiating with Vietnam on its withdrawal from Kampuchea and the replacement of the current government in Phnom Penh. Indonesia has played the lead role in these negotiations, most recently by sponsoring the "cocktail party" Jakarta Informal Meetings. While progress has been slow, a combination of factors, including the apparent impatience of the Soviet Union with Vietnam and indications that China is less committed than previously to the Khmer Rouge, has created an expectation that a resolution can be negotiated. If so, much of the credit should go to the persistence and skill of the ASEAN countries.

Perhaps more than anything ASEAN has provided the framework for stability, cooperation and economic progress in the major countries of Southeast Asia.

Let me turn now to some comments on the ASEAN countries.

Brunei

Brunei, with a population of only 250,000 people, gained full independence in 1984 after being a British protectorate since 1888. Although the current Sultan, Sir Muda Hassanal Bolkiah, became Sultan when his father abdicated in favour of his eldest son in 1967, it was not until his father died in 1986 that he began to assert his leadership within the country. Brunei's oil reserves at current production rates (approximately 150,000 barrels per day) are projected to last until 2014, and natural gas until 2022. A new 5 year plan outlines the Government's plan to shift the country's heavy dependence on oil and natural gas. A cabinet reshuffle brought in technocrats to senior positions in the finance and development industries.

During the past two years the relationship between Indonesia and Brunei has become close. The Sultan has expressed his interest in investments in Indonesia, and has made over $150,000,000 in loans on concessionary terms to the Government of Indonesia and to private Indonesian companies undertaking state sponsored development projects.

Indonesia

The Republic of Indonesia declared its independence in 1945. Following its independence struggle with the Netherlands, and a brief period as a federation, Indonesia has gone through three political stages: the Parliamentary Period from 1951 - 1958; the Guided Democracy from 1958 - 1965; and the New Order under General Suharto, who assumed the leadership of the Army in response to the assassination of seven leading Army generals on September 30, 1965, and was first elected President of Indonesia in 1968. Since 1968, President Suharto has been reelected four times, most recently in 1988. The issues surrounding the possible succession to the Presidency, a subject to which I will return later, have dominated for the past two years, and will continue to dominate Indonesian politics for the near future.

Indonesia, with 175,000,000 people, is the fifth most populous country in the world. Approximately 75% of the population lives on the Island of Java, a land area less than 1/3 the size of California and less than 3/4 the size of Washington. With over 13,000 islands, 3,000 of which are inhabited, the Indonesian archipelago stretches 3,200 miles from east to west, and straddles the shipping lanes between the Middleast and the Pacific. Ninety percent of the population is, at least nominally, Muslims, although for a substantial number of these, perhaps half, their Muslim religion is a thin overlay of Hindu-Budhist-animist beliefs. Indonesia's major exports include hard minerals, plywood and other timber products, rubber, coffee, tea, shrimp, textiles, handicrafts, and above all, oil and natural gas.

Oil has played a dominant role in Indonesia, particularly during the New Order. Oil Production has varied between 1,100,000 and 1,500,000 barrels a day. It has provided up to 80% of Indonesia's exports, and up to 75% of the Government's Revenue. During the 1970s and the early 1980s oil revenues fueled the rapid development of Indonesia's economy, the expansion of education, rural development, communication and the development of basic industries. The dramatic fall in the price of oil, accentuated by its tie to the declining United States' dollar, has been a tremendous shock to the Indonesian economy.

The Indonesian government has responded with significant changes in economic policy:

1. Deregulation aimed at reducing costs and increasing both foreign and domestic investment;

2. Restructuring the financial sector of the economy, including increasing the opportunity for new joint venture banks and for existing foreign banks, non bank financial institutions and new joint venture banks to establish branch offices outside Jakarta, and opening other financial activities and insurance to foreign investment;

3. Permitting foreigners to purchase shares sold on the capital market, and creating greater opportunities for small and medium sized Indonesian companies to raise capital on the capital market and a new over-the-counter market;

4. Significant changes in regulations to encourage foreign investment;

5. A variety of regulations designed to increase exports; and

6. Eliminating almost all monopolies on imports and exports, including those controlled by members of the President's family or persons close to the President.

The change in policies appears to have been dramatically effective, at least in the short run. Both foreign and Indonesian investors have responded to the deregulation packages. Investment has increased, exports of non oil products have increased dramatically, the tax base has been spread and tax revenues increased dramatically.

In addition to the foregoing, Indonesia has responded to pressure from the United States, Europe and Japan to improve protection of intellectual property rights. Recent Supreme Court decisions have attempted to bring some degree of rationality and consistency to the administration and enforcement of the Trademark Laws. Amendments to the Copyright Law have included computer software under its protection. The owners of creations created or first published outside of Indonesia, however, are not protected unless Indonesia and the country where they are published/created have entered into a bilateral agreement for the protection of such rights, or both countries are parties to a multilateral agreement for the protection of copyrights. Indonesia is not a party to any multilateral agreement and has, as yet, entered into a bilateral agreement only with the European Economic Community. I understand that negotiations between the U.S. and Indonesia are in progress, and that the ball is now in the U.S.'s court. It is expected that a patent law will be adopted for the first time this year.

In 1988, Indonesia and the U.S. signed a Treaty for the Avoidance of Double Taxation. Ratification of the Treaty by the United States' Senate is important for American businesses doing business with or in Indonesia. Under the Indonesian Income Tax Law of 1983, a Permanent Establishment of a foreign corporation is an Indonesian Resident Tax Subject. The law defines "Permanent Establishment" very broadly. Indeed, virtually every American business I know desiring to sell products to Indonesia confronts the possibility of having a Permanent Establishment under the Law, which would as a consequence be subject to Indonesian income tax. Those who are wise enough to talk with competent Indonesian counsel can, of course, avoid or minimize the pitfalls. The Treaty, inter alia, will narrow the definition of Permanent Establishment. It will not quite put us, i.e., lawyers, out of business, but it will substantially reduce the need for special structuring of transactions in order to avoid adverse tax consequences.

I mentioned earlier that issues surrounding President Suharto's succession have and are expected to dominate Indonesian politics. In March 1988, Indonesia's Consultation Representative Body ("MPR") elected President Suharto to a fifth term, and, notwithstanding last minute maneuverings by several important political forces, including the Army, the President's designee, State Secretary Sudharmono was elected Vice President. Events leading up to the election and since suggest that Vice President Sudharmono may not enjoy the full support of the Indonesian military. His support is based on the bureaucracy and Golkar, Indonesia's dominant political party. However, most observers believe that when President Suharto leaves office when his current term ends in 1993 or before, should he resign in mid term as has been suggested by some speculators, his successor must be acceptable to the military. While it is not clear who will succeed President Suharto, it is unlikely Government policy will change significantly under his successor.

Malaysia

Malaysia was created and gained its independence from Great Britain in 1963, bringing together Malaya (Peninsular Malaysia), Singapore, and Sabah and Sarawak (the last two being located on the north coast of Kalimantan (Borneo)) as one country under a central government in Kuala Lumpur. Singapore left Malaysia and became an independent country in 1965. Malaysia has a population of 16,500,000 people, approximately 46% of whom are Malays, and 37% of whom are Chinese.

As with Indonesia, oil and natural gas have been major industries and have provided a major source of revenue for development of the economy. The fall in oil prices dealt a sharp blow to the economy causing two years of recession in 1985 - 86. The turnaround began in 1987, with a 2% growth in GDP that year. Major exports include machinery and transport equipment, crude petroleum and natural gas, tin, rubber, palm oil, lumber products, and textiles.

Following Indonesia's lead, the Malaysian Government has begun to emphasize the need for the private sector to take over as the engine of economic growth. A major state-owned direct reduction steel furnace was shut down in 1987, other state-owned projects may, according to the Minister of Finance, be closed down, rehabilitated or privatized. In 1987 and 1988, even with the continued low price of oil, the economy grew, led by the manufacturing and export sectors. The growth in manufacturing is expected to continue, in large part due to changes in the Government's attitude toward foreign investment.

In 1970 the Government promulgated its New Economic Policy which mandated 30% employment and equity ownership for bumiputras (indigenous Malays) in all companies by 1990. For most investment this required foreign ownership to reduce to a minority. Recently promulgated regulations relating to foreign investment encourage majority foreign ownership and provide attractive tax and other incentives, especially for export oriented businesses. Indeed Malaysia, along with Thailand, is sometimes referred to as the next Asian N.I.C. Malaysia was invited, along with South Korea, Taiwan, Hong Kong, Singapore and Thailand, to attend an OECD sponsored seminar held in Paris on January 24 - 25 to discuss "sustaining the development of the global economy". Malaysia and Thailand both declined to attend, out of concern that participation might jeopardize their ability to participate in the U.S. and European General Preference Systems.

Malaysia's economic growth since independence has in large part resulted from its internal economic stability. From the outset Malaysian politics have been based on the unwritten contract of Malay political supremacy. In practical terms this meant domination of national politics by the United Malay National Organization (UMNO) who originally shared Governmental power with the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), and more recently with additional Parties, primarily having a local base, under the United Front. In the past three years the stability previously provided by this ethnic derived political system has begun to break down. With no true multiracial party each ethnic group was left to look to an ethnic party to protect its interest. Implementation of the NEP began to threaten Chinese dominance in the business sector; changes in educational policy supported by the Youth Wing of UMNO, and favouring Malays, threatened Chinese education. The MCA appeared powerless to protect its constituency. In addition, after a two year internal leadership struggle, the eventual winner and party president, Tan Koon Swan, was arrested in January 1986 by the Singapore Government and later convicted and sentenced to two years in jail for criminal breach of trust. The result was clearly seen in the 1986 National and State Assembly election. While UMNO demonstrated its clear hold on Malay loyalties, sweeping 83 out of 84 seats it contested in the 177 seat Parliament, the United Front did not win in any constituency where Chinese made up more than 59% of the electorate. The opposition Chinese dominated party, Democratic Action Party (DAP), won 24 seats -- 23 of them in constituencies where Chinese made up 55% or more of the electorate. For the first time the clear opposition is a single Chinese Party.

The impact of the election has served to increase the ethnic basis of national politics. The MCA has felt compelled to champion more vigorously Chinese issues, particularly relating to education.

This, in turn, has prompted UMNO, particularly its Youth Wing, to be more strident in its demands for a Malay Malaysia.

In 1987 the divisions in UMNO itself were breached. In April UMNO held its annual assembly and triennial party elections. For the first time the leadership positions were contested. The party president, as leader of the majority party in Parliament, is automatically the Prime Minister. Prime Minister Mahatir was challenged by his then Trade and Industry Minister Razaleigh Homzah, who teamed up with Mahatir's former Deputy Prime Minister, Musa Hitam. The election contest was unusually acrimonious. Five full Ministers and four Deputy Ministers supported the challengers. Mahatir won, by a narrow 43-vote margin. His Deputy Prime Minister Gahfar Baba defeated Musa Hitam by a narrow 41-vote margin. In a cabinet reshuffle following the election all supporters of the Razaleigh-Musa team were ousted. The election occurred amidst broad based criticism of the Government for favoritism, corruption and the 1985-86 down-turn in the economy and Mahatir for his style of leadership. The split has continued with serious repercussions and disruptions.

Six months after the UMNO elections, on 27 October 1987, the Government, using the Internal Security Act -- which permits arrest and detention without charge or trial -- began arresting people from a broad spectrum of occupations and interests. Within the first 48 hours, 48 people were arrested. Over the next three weeks the list grew to 106. Included in the list were three UMNO Youth leaders who supported the Razaleigh-Musa team, eight MCA leaders, and 15 leaders of the opposition DAP, including its Secretary General Lim Kit Siang and nine other DAP members of Parliament. The arrests were not limited to politicians; leaders of several reform oriented organizations, including Chandra Muzzafar, President of the internationally respected reform organization, ALIRAN, were also arrested. At the same time three Malaysian newspapers were closed down by the Government -- the English language daily, The Star, the Chinese language daily, Sin Chew Jit Pok, and the Malay language biweekly, Watan. Within the past three weeks five of the remaining seven persons detained were released leaving only Lim Kit Siang, Secretary General and leader of the opposition DAP, and his son Lee Guan Eng, also a DAP member of Parliament.

The bitterness of the division within UMNO over party, and thus national, leadership is intertwined with another series of events that has troubled many Malaysians and foreigners. In January 1988 the Government introduced a bill in Parliament to restrict the right of the Judiciary from reviewing Executive actions. While ostensibly intended simply to clarify the separation between the executive, judicial and legislative branches of Government, many observers feel it was primarily, if not exclusively, a reaction to judicial action overturning Government expulsion of foreign journalists, the release of a leading opposition politician detained under the ISA, and compelling the dissolution of UMNO for failing to register 30 branches as required by law. In moving the bill in Parliament, the Prime Minister pointedly accused the Judiciary of bias against the Government and meddling in politics.

The Lord President of the Supreme Court wrote a letter to the King protesting the Prime Minister's accusations. Upon request of the Prime Minister, the King suspended the Lord President and a tribunal, chaired by the Chief Justice who as a result of the suspension became Acting Lord President, was established to review the matter and report to the King. In the ensuing legal actions, another five Supreme Court Judges were suspended after issuing an order restraining the tribunal from issuing its report to the King until it had heard from the Lord President. During the last half of 1988 these and other matters were resolved. The Lord President and two of the five Supreme Court Justices have been removed from the Court. Three of the five were reinstated.

In addition, a Supreme Court panel of 5 Justices, including three Justices temporarily raised to the Supreme Court necessary to compose a panel of 5, decided in favour of Mahatir's new UMNO (UMNO BARU) political party established after the original UMNO was declared unlawful by the Court shortly after the 1987 party election for failure to register 30 UMNO branches as required under the Societies Act. This victory for Mahatir was critical. It not only denied the claim of the opposition, who included Malaysia's first Prime Minister and founder of UMNO, to the original UMNO and the symbolic importance it has for Malays, it denied to them the very substantial financial and other assets that were owned by the original UMNO prior to its dissolution.

For the moment, the Prime Minister has won his legal battles. However at the end of 1988 the Malay leadership was clearly, and seemingly irreconcilably, divided. The Prime Minister is clearly not liked by rank and file and many national and state party leaders. However by maintaining control of both the Party machinery and Government patronage, the Prime Minister Mahatir has been able to maintain power.

Until January 1989 the Malaysian political situation appeared to be extremely precarious. However, on 18 January Mahatir entered the hospital complaining of chest pains and on 25 January underwent a by-pass operation. This has raised expectations that he will resign before the year is out, opening the way for a compromise to be worked out by the other UMNO BARU Party leaders and the opposition.

If a compromise cannot be achieved, the legal and political actions over the past two and one-half years are likely to have repercussions on economic issues as well. Economic issues and policies are under review by the 150 person National Economic Consultative Council, recently convened to advise the Government on revisions to the New Economic Policy which is scheduled to expire in 1990. The critical issues here will be those separating Chinese and Malay interest. If the Malay leadership is threatened due to its own internal strife, it will not be able to reach the necessary accommodation with Chinese and other minority political interests.

Philippines

It is difficult to add to an impressive body of public information regarding the Philippines. Indeed many members of Congress have played important positive roles in the events that have unfolded in the Philippines, beginning with the events that brought President Aquino to power three years ago this month.

Although the Aquino Government is much criticized, I believe a fair review of its actions would result in it receiving positive marks. It came to power in the midst of extraordinary historic events, and amid unreasonably high expectations. The economy appears to have stabilized, and during 1988 grew at a rate of 6%. The political situation, after surviving several disruptions, including the almost successful attempted coup in August 1987, appears to have stabilized. Former President Marcos and his supporters appear to be in disarray and may cease to be an important factor before the end of 1989. Former Defense Minister Enrile also appears to have little political backing. Vice President Laurel, now openly in opposition, is unlikely to find sufficient backing to pose a significant threat to President Aquino. Although not as clear, I do not expect rebel elements of the military to pose a direct threat to the Government in the immediate future. There is, however, a question as to its ability to effectively combat insurgency.

The more critical issue is whether the Government has sufficient revenue to tackle its foreign debt problems and its domestic needs, including the need to implement a serious land reform program and rural development program and an extension of credit in rural areas, or sufficient will to respond to the political and social demands of the non-communist left.

Singapore

Singapore became an independent country in 1965 when it left Malaysia. However since 1959, when it gained internal self rule from Great Britain it has been governed by the Peoples Action Party

(PAP), led by Prime Minister Lee Kuan Yew. Anyone who has observed Singapore during the past twenty years has to be absolutely astounded at the economic change and development that has occurred. I have been in Singapore at least every two years since 1967, frequently two or three times a year. I am continually amazed. Just over twenty years ago Singapore set four basic goals of nation building: industrialization, affordable housing, education and care for the elderly. It appears to have had remarkable success on all four fronts. As one example, 80% of Singapore families own their own homes. On a per capita income basis, Singapore is ranked by the World Bank as 19th in the world.

A recent recession in 1985 - 86 interrupted Singapore's customary double or near double digit annual economic growth rates. In 1987 it was back at 7%, led by a resurgence in export of manufactured products. The Government appears to have pulled off its gamble to shift from low wage manufacturing to higher wage, hi-technology products and production. Major efforts have been undertaken to attract selected investment from Europe, particularly from Germany and Italy, and from Japan. In 1987 96 new Japanese owned companies were established in Singapore.

The Government would like to make Singapore the major financial center in Asia outside of Japan. While it continues to trail far behind Hong Kong, this may well change during the 1990's as a result of the change of sovereignty over Hong Kong in 1997.

Those of us who have worked in and closely observed Singapore have admired its economic growth, and marveled at the efficiency of its bureaucracy. I recall, while living in Singapore 20 years ago, I was constantly amazed that the postal service always knew exactly where to find me to deliver mail addressed to me at "Bukit Timah Road, Singapore". Those familiar with Singapore know that Bukit Timah Road is almost 20 miles long, perhaps the longest street in Singapore. Yet the postal service knew exactly where to locate me along that 20 mile stretch. There is no evidence of which I am aware that during the intervening years, the Singapore bureaucracy has become any less efficient in locating individuals for the delivery of mail or other purposes.

Indeed this raises perhaps the major problem for Singapore political leadership. An increasingly affluent, middle class Singapore desires less supervision, less exhortation about "toughness", more consultation, at least, if not participation, in decision making, more exchange and perhaps even advocacy of ideas from the ground up and not just the top down. Those concerns undoubtedly are reflected in sharp decreases in the PAP's percentage of the vote in the 1984 general election to 63%, and below 60% in one 1988 general election, the first time since independence. The drop in 1988 during the midst of Singapore's remarkable economic recovery -- economic growth reportedly increasing for the first half of 1988 at an annual rate of 11%, unemployment dropping to 3%, and wage increase averaging 10% -- may reflect the fact that 220,000 new voters have no recollection of Singapore's hard times.

Very much in their minds, and the minds of other voters, however, was the 1987 detention and arrest of 22 young businessmen, professionals, and social workers, who the Government claimed were using Catholic social welfare bodies as covers to infiltrate the opposition Worker's Party, the Law Society and a drama group to overthrow the Government. Initial skepticism of the threat posed was reinforced when all were subsequently released following televised admissions. Following their release several were re-arrested after accusing the Government of using coercion to obtain their admissions. Once again they were released after retracting their accusations and earlier retractions.

In May, 1988, former Solicitor General Frances Seow was arrested under the ISA for allegedly conspiring with U.S. diplomats in Singapore to encourage opposition candidates to run against the PAP in the next general election. In June the Government acknowledged that it had no evidence that U.S. diplomats had encouraged Seow to organize opposition candidates. In July Seow was released. Late last month Seow, in New York for medical treatment for a heart condition, reportedly was under surveillance by detectives working for a New York investigation and security agency. One of the detectives involved has admitted the surveillance, but at least to my knowledge, has not disclosed who employed the agency to undertake the surveillance.

Seow's position is extremely precarious. He is a leading member of the Singapore Bar, a former President of the Law Society, and defense counsel for some of the persons detained in 1987 under the ISA. In 1988 he was charged and convicted of violating Singapore's Revenue Act, and fined S$19,500. The fine, being in excess of S$2,000, meant that he would not be entitled to take his seat in Parliament, which he would otherwise have been entitled to as a result of the 1988 elections. More important, perhaps, it constitutes grounds for the Government to instigate disciplinary proceedings to have him disbarred. The Singapore Government has just announced its intention to introduce a bill in Parliament that will prevent appeals of disbarment to the Privy Council in London. Clearly the Government does not want a repeat of its recent experience of having obtained the disbarment of the first opposition member of Parliament (after his removal from Parliament), only to have the disbarred lawyer appeal to the Privy Council who reversed the Singapore decision with a stinging criticism of the Singapore action.

This is not to say that no dissent is allowed in Singapore. The Singapore press has been open in its discussion of national policy issues, at least to the extent of printing letters that address significant public policy issues. That openness has not extended to the foreign press. In the past two years Time Magazine, the Asian Wall Street Journal, Asiaweek and the Far Eastern Economic Review have had their circulation reduced (in the case of Time from 18,000 to 2,000 and in the case of the Asian Wall Street Journal from 5,000 to 400 copies) for refusing to publish letters from the Prime Minister's Office responding to articles on political dissent, or, in the case of the Far Eastern Economic Review, for refusing to publish such a letter in response to a letter printed by the Review from S. Devan Nair, the former President of Singapore. The Government's position in such cases is clear: foreign publications do not have a legal right to sell their publications in Singapore, they are permitted to do so so long as they do not get involved in Singapore's internal political affairs.

Prime Minister Lee has said that he will retire from the Prime Ministership, but not from politics, after he reaches 65 years of age. That is expected to be this year. It is not clear who his successor will be, although speculation has narrowed to his son, Lee Hsien Loon, currently Minister of Trade and Industry and a retired brigadier general, and the current First Deputy Prime Minister Goh Chok Tong. Whatever choice is made, the transition is expected to go smoothly and may pave the way for greater tolerance of political dissent to accompany Singapore's remarkable economic progress.

Thailand

Thailand, with a population of 54,000,000 people, is seen by many as the next Asian N.I.C. In contrast to Indonesia and Malaysia, the fall in oil prices was a benefit to the Thai economy, reducing the cost of oil and other energy imports by $1,000,000,000 annually. An increase in exports, which shifted from traditional commodities -- rice and tin -- to food based and other manufactures, including textiles, have spurred Thailand's economy, which is predicted to continue growth at a 7 - 10% a year basis well into the 1990's.

Many forecasters, however, suggest that the country will have to overcome several significant problems if it is to sustain its economic growth: an overburdened infrastructure, particularly limited port and other transportation and communication facilities; a bureaucracy that is slow to adapt to change or to respond to identified problems, and an unskilled labour force, which continues to be largely rural and agrarian based. Indeed placing too much stress on industrialization and exports may create social unrest in Thai rural areas.

I would add to the above problems the potential problems to the economy of political uncertainty. Thai politics have historically been the most unstable in the region. Civilian or quasi-civilian governments have relied upon multiple party coalitions. Internal party struggles and the inability of parties to effectively govern have frequently provided the rationale for the military to take over. Indeed, an internal split within the Democratic Party, the largest in the then Government Coalition in early 1988, led to the dissolution of Parliament and new elections in July. The elections produced no surprises. However when the leading coalition of 5 Parties offered the Prime Minister's post to the then Prime Minister Prem Tinsulanond, a non-partisan and former Army general, he turned them down. The coalition then turned to former Deputy Prime Minister Chatichai Choonhavan, of the Chart Thai Party, who had won 87 seats in the 347 seat House of Representatives -- the largest of any party. The new Prime Minister is considered a civilian politician. His career in the Thai Army ended 30 years ago as a major general when the then civilian government, of which his father was the Deputy Prime Minister, was toppled by a military coup in 1958. In the intervening years he has served as Thailand's ambassador in several countries and in senior government posts, most recently as Deputy Prime Minister. Although apparently acceptable to the Thai Army, at least at present, he will not have the ability to effect changes in Army leadership that his predecessor had. This may be critical.

One of the dominant questions of the current Thai political scene is the intentions of the current Commander of the Army, General Chaovalit Yongchaiyut. For the past two years General Chaovalit has frequently spoken out on non military matters of economic and social policy, at one time openly advocating a "peaceful revolution" that he said would bring about significant structural changes to Thailand's political, economic and social system. He is believed to have developed a plan for a new political party based on the military, the bureaucracy and military supported functional groups that sounds strikingly similar to Indonesia's GOLKAR. Few observers doubt his political ambitions. Many believe he is simply waiting for the first opportune time.

To read the Southeast Asian Press, many observers did not expect Prime Minister Chaitichai's Government to last through 1988. However, by accounts that I read and according to people in Thailand with whom I have talked, he is credited with handling Thailand's unwieldy political and governmental system with considerable skill, and is now given some chance at success.

That success may depend on being able to avoid difficult problems in foreign economic relations that could stifle the country's economic progress. As noted above, Thailand's economic progress is primarily dependent on its ability to continue its growth in exports. In this respect the United States, as its largest trading partner, may be key. U.S. pressure on Thailand in 1987 relating to protection of foreign intellectual property rights set off a storm of protests in Bangkok's press and within and among its political parties. Unfortunately the storm of debate focused on allegations of "U.S. bully-boy tactics" against a faithful ally rather than the merits of the issues. Such issues, as well as protectionist's efforts relating to textiles, clothing and other products can have significant destabilizing effects on the Thai economy and government.

Some mention should be made of Thailand's foreign relations. It is, as you are aware, a frontline state in the issue of Kampuchea. Thai-Vietnamese conflicts are centuries old. The removal of Vietnamese troops from Kampuchea has been and continues to be a principal objective of Thai foreign policy. In this respect Thailand has participated fully in ASEAN efforts to bring about a settlement, although its position has sometimes been at odds with Indonesia's somewhat more accommodating relationship with Vietnam. During the past two years, Thailand has drawn somewhat closer to China, recently purchasing tanks, armored personnel carriers and other military hardware from the Chinese at "friendship" prices. Although the purpose is not entirely clear, the timing suggests that there may be some connection with Chinese moves to distance itself from the Khmer Rouge. Certainly this is a related objective of Thailand. It has no wish to see the Khmer Rouge return to power in Phnom Penh.

Thailand has also had a modest increase in relations with the Soviet Union, in response to the Soviet's desire to establish better economic relations with Southeast Asia. It can be expected that these contacts have also been used by Thailand to express its concern over the Soviet's support of Vietnam. Thailand is clearly concerned about the Soviet's military build-up in Southeast Asia.

The newest element in the Thai foreign relations picture is the turmoil in Burma on its western border. Already faced with refugees from Kampuchea on its eastern border, Thailand does not want to see the same process in an outflow from Burma, nor does it want the instability that would create such flow of refugees.

Summary

ASEAN's economic growth during the past 10 years has been the highest of any group of developing countries. The major impact during that period has been the dramatic drop in oil prices adversely, at least in the short run, affecting Indonesia and Malaysia, and secondarily Singapore. All three countries appear to have recovered from that shock. With respect to Indonesia, the shock of the drop in revenue and export earnings has compelled changes that many, including me, believe have strengthened the economy and the political structure.

Two countries within ASEAN -- Thailand and the Philippines -- are in the midst of political transition. I believe that the outlines of the situation in the Philippines are at least identified by policy makers in Washington. In moments of crisis, such as in the case of the most recent attempt by elements of the Philippines military to overthrow the Government, the United States acted promptly and decisively to support the Aquino Government. I fear that the situation in Thailand is much less well understood. Because of the robustness of the Thai economy and the relative stability over the past 8 1/2 years, there may be an assumption on the part of U.S. policy makers of political stability. That would be unfortunate, as it could lead to actions that could destabilize what is a quite precarious internal balance of power.

Three countries within the region will face a transition of power within the next five years. In Malaysia the struggle for transition is already underway, and has resulted in serious abuses of civil and political rights and serious undermining of what has been regarded as one of the outstanding independent judiciaries in Asia. While the U.S. can do little to affect the underlying ethnic basis of Malaysian politics, it should speak out forcefully against abuses of human rights, and urge its European and Asian allies to do the same.

Singapore is in a somewhat different position. The transition is well underway. Indeed some may argue that it simply has to be played out. There is reason for cautious optimism that the Country's new leadership will seek at least a more consultative and less authoritarian, process. No single person in the new leadership will conceivably dominate the political and government scene the way Prime Minister Lee has for the past thirty years. That change, alone, gives hope that the closed nature of Singapore's political life will open to match its growing economy.

Indonesia will undoubtedly face a transition within the next five years. It is perhaps the most important of the Southeast Asian Countries by reason of its size, both population and area, wealth of minerals and other natural resources, and location straddling the major shipping lanes between the Middle East/South Asian and Japan and the Pacific. Instability in Indonesia means instability in Southeast Asia. The governmental transition is already underway, as President Suharto replaced Senior Ministers with younger men in the most recent cabinet. The younger generation of leaders are expected to continue the same basic economic and social policies that are now in place. Indeed they are instrumental in shaping those policies. There are nine key young Ministers, three from the Army, three from the bureaucracy and three from GOLKAR, the dominant political party. The question left open is whether the change at the top will be as smooth. The answer depends on President Suharto's political skill and the Indonesian military.

Senator ADAMS. Thank you, Mr. Manring, very much. And I want to particularly thank you for your excellent written testimony, which I have been attempting to scan as you were going through it. I commend it to others who have not had an opportunity to read it. It is an excellent primer on conditions in Southeast Asia which we do not often have an opportunity to examine.

Our final witness on this panel is Mr. Philip Allen. He is the manager of the Washington State Taiwan Trade Association.

I would request, also, Mr. Allen, as I did of Mr. Manring that you might summarize your statement, and we'll proceed into the questions.

So, it's a great pleasure—Mr. Allen is manager of the Washington State Taiwan Trade Association—and welcome to the hearing.

STATEMENT OF PHILIP ALLEN, MANAGER, WASHINGTON STATE TAIWAN TRADE ASSOCIATION

Mr. ALLEN. Thank you, Chairman Cranston, Senator Adams. It is an honor to be here today.

I would like to summarize the testimony which has already been submitted.

Senator ADAMS. Without objection, your entire testimony will be placed in the record, as given.

Mr. Allen.

Mr. ALLEN. In my comments I will emphasize the role of the Taiwan Trade Association, because I feel it plays an important role in trade with Taiwan. In my comments I will address the function of the Washington State Taiwan Trade Association, the level of trade between Washington State and Taiwan, the economic factors affecting trade with Taiwan, and I will conclude with the issue of trade relations between Washington State and Taiwan.

Senator ADAMS. Please proceed.

Mr. ALLEN. The Taiwan Trade Association was founded in 1986 to encourage trade and other economic activities such as tourism, external investment, joint ventures, and science and technology transfers between Washington State and Taiwan.

This role was further defined in a letter by Gov. Booth Gardner in which he stated:

> I hereby authorize the association to represent the State's interests in the operation and management of the showroom in the Import Mart of the Taipei World Trade Center.

The creation of the Taiwan Trade Association as a private, nonprofit organization was prompted by three primary considerations:

One, the importance of Taiwan in Washington State's trade with the Pacific Rim, and the need to focus greater attention on this trade, particularly for small- and medium-sized businesses;

Two, the need to bring the private sector into a more active partnership with the State in the effort to promote trade;

Three, the recognition of the important functions that the American Institute in Taiwan provides in promoting an effective trade relationship with Taiwan.

Our organization is governed by a board of directors that includes representatives from business, economic development organizations, State agencies, and port authorities. Funding derives from three sources: membership dues, fees for exhibiting, and funds received from Washington State under contracts.

We function at two primary levels: as a general resource for trade information about Taiwan, and as an organization that actively promotes trade and facilitates business contacts through its showroom in Taipei. In these efforts we work closely with the Washington State Department of Trade and Economic Development, the Washington State Department of Agriculture, the United States Foreign and Commercial Service, the American Institute in Taiwan, and the China External Trade Development Council in Taipei.

The establishment of the Taiwan Trade Association and the opening of its office in Taiwan marks a significant increase in the total expenditure by both the private sector and State government toward improving trade with Taiwan. Washington State currently has two international trade offices, one located in Tokyo managed by the department of trade, and the second in Taipei managed by the Taiwan Trade Association.

Taiwan is Washington State's third-largest trading partner. Imports from Taiwan through Washington ports grew to over $3.6 billion in 1987. Exports were greater than $753 million.

Although Washington State benefits from the total volume of products that pass through its ports, a significant portion of these exports originate outside of the State. The largest dollar value export in the period 1983 through 1987 was corn, with exports in 1987 estimated at $160 million. Very little of this corn is actually grown here in this State.

Major exports to Taiwan that do originate in the State include airplanes and aerospace parts, wood products, and apples. In addition, at a lower but still significant level, are analytic instruments, medical devices, computer products, and software.

It is difficult to accurately estimate the volume of exports that originate in Washington State. However, this level is certainly less than 40 percent of total exports to Taiwan.

The level of trade is influenced by factors both in Washington State and in Taiwan. For exports to Taiwan, these factors are primarily associated with trade management in Washington State, and by trade controls and other restrictions in Taiwan.

Taiwan has taken important steps over the last 2 years to reduce tariffs and to remove other restrictions. Reduced tariffs, however, have not been reflected in an equal degree to lower retail prices, in part because of restrictive and controlled distribution networks in the private sector.

Recent problems that small Washington State companies have experienced with importers in Taiwan are not unusual, and include miscommunications regarding invoices and letters of credit, inadequate labeling, and problems with ingredients in processed food products.

Taiwan, in the last year, has taken a more flexible and pragmatic approach toward developing economic relations with other countries, although she has maintained a somewhat conservative attitude toward her relationships with the States of the United States.

Because of Taiwan's increased visibility as a manufacturing and trading economy, she has increased her participation in international organizations such as the Asian Development Bank, and she has expressed interest in joining GATT. Taiwan has also been active in expanding trade relations throughout the world, including trade with East European countries.

Although Taiwan has actively promoted a "buy America" campaign to increase imports, she has been somewhat selective in how trade with the individual States is promoted, with the apparent goal to encourage the signing of sister-State agreements. At the present time, 33 States have entered into such an agreement. Washington State currently does not have a sister-State agreement with Taiwan.

Although the initial response by Taiwan was positive to the creation of the Taiwan Trade Association as an organization to increase communication and economic exchange, the Taiwan Trade Association is now regarded as an impediment to an official relationship between Taiwan and the State. It is interesting to note that the current level of expenditures for trade promotion and increased communication with Taiwan is the result of the formation of the Taiwan Trade Association as a separate trade promotion organization, and would not have been possible within the current State budget without the partnership between the public and private sectors represented by our organization.

There is a range of opinion in Taiwan over trade policy. In the last 2 years, the Legislative Yuan of the ROC has become increasingly independent and outspoken. In the spring of 1988 there was critical comment in the legislature directed toward Washington State. In part, these comments reflected genuine concern of individuals, and the legislators who spoke for them, at the impact U.S. imports were having on their livelihood. In this instance, the imports were apples from Washington State, and affected growers in Taiwan who could not easily compete in terms of quality and price with the imported product.

It would be a mistake to dismiss these problems lightly. They reflect in many cases discontinuities in Taiwan's economy as it grows progressively from an agricultural base, to low-value-added, to high-value-added manufacturing.

Just as there is a range of opinion and evolution of attitudes in Taiwan, there is a diversity of opinion in Washington State. Within this range, there are many options to improving communications between Washington State and Taiwan that should be explored.

The role of the Taiwan Trade Association is to facilitate and promote trade, and good communication is important in that process. We have supported trade and investment missions to Taiwan and encouraged the exchange of ideas at all levels, including the formation of substantive sister-city and sister-port associations. Further exchanges should be encouraged.

Legislators from the Washington State Senate and House could visit Taiwan more frequently and meet with their counterparts in the Taiwan Provincial Assembly. Legislators in Taiwan should be encouraged to visit Washington State. Consideration should also be given to a more active role by officials in State government, including possible visits to Taiwan by agency heads, the Lieutenant Governor, or Governor, in order to become better acquainted with the business environment in Taiwan and its potential.

A close working relationship would benefit both Washington State and Taiwan.

Thank you for this opportunity to make comment.

[The prepared statement of Mr. Allen follows:]

PREPARED STATEMENT OF PHILIP ALLEN

The opportunity to offer comments about economic and trade issues between Washington State and Taiwan is appreciated. Trade with Taiwan is not only important for Washington State, but it offers an example of the potential for increased export of U.S. products, and state and local programs that can facilitate this trade.

These comments will address the following points:

1) function of the Washington State Taiwan Trade Association, and State and private sector initiatives to improve trade,

2) the level of trade between Washington State and Taiwan,

3) economic factors affecting trade with Taiwan,

4) trade relations between Washington State and Taiwan.

Emphasis in the following discussion has been placed on the Washington State Trade Association and its unique role in promoting trade with Taiwan.

I FUNCTION OF WSTTA

The Washington State Taiwan Trade Association was founded in 1986 at the request of the Governor of the State of Washington, Booth Gardner. The function of WSTTA, as described in its By-laws is to:

> ...encourage trade and other economic activity, such as tourism, external investment, joint ventures, and science and technology transfer, between Washington State and Taiwan....

The role of WSTTA was further defined by Governor Gardner in a 1987 letter to the Secretary General of the China External Trade Development Council (CETRA):

> ...I hereby authorize the Association to represent the state's interests in the operation and management of the showroom in the Import Mart of the Taipei World Trade Center. I am confident that through the Washington State-Taiwan Trade Association, we will be able to enhance the important economic relations and friendship that Washington currently enjoys with Taiwan.

The creation of WSTTA as a private, non-profit organization was prompted by three primary considerations:

1) the importance of Taiwan in Washington State's trade with the Pacific Rim, and the need to focus greater attention on this trade, particularly for small and medium-sized businesses,

2) the need to bring the private sector into a more active partnership with the State in the effort to promote trade,

3) the recognition of the important functions that the American Institute in Taiwan (AIT) provides in promoting an effective trade relationship with Taiwan, and the model the structure of AIT provides to state governments.

WSTTA is governed by a Board of Directors that includes representatives from business, trade and economic development organizations, State agencies, and port authorities. Funding for WSTTA derives from three sources: membership dues, fees for exhibiting and promoting products and services of Washington Companies in the WSTTA showroom in Taiwan, and funds received from Washington State under contract for specific services provided by WSTTA.

In October 1987, WSTTA became operational with the opening of an office-showroom in the Taipei World Trade Center. The Taipei office is managed by the WSTTA Representative in Taiwan, currently a Chinese-American with previous experience with the Commercial Sections of the U.S. Embassy and the American Institute in Taiwan.

WSTTA functions at two primary levels: as a general resource for trade information about Taiwan, and as an organization that actively promotes trade and facilitates business contacts through its showroom in Taipei. In addition, WSTTA coordinates trade and investment missions in both Washington and Taiwan, and provides in-country assistance for visiting businessmen. In these efforts, WSTTA works closely with the Washington State Department of Trade and Economic Development, the Washington State Department of Agriculture; the U.S. Foreign and Commercial Service; the American Institute in Taiwan; and the China External Trade Development Council.

The establishment of WSTTA and the opening of its office in Taiwan marks a significant increase in the total expenditure by both the private sector and State government toward improving trade with Taiwan. Washington State currently has two international trade offices, one located in Tokyo managed by the Department of Trade and Economic Development, and the second in Taipei managed by WSTTA.

The recently published Long-Term Economic Development Strategy prepared by the Washington State Economic Development Board recommended that trade offices, with a private-public sector foundation, be established in major cities throughout the world. The WSTTA trade office in Taipei, may well be the first of other Washington State trade offices. Other states might consider developing similar organizations as WSTTA to promote international trade.

II TRADE BETWEEN WASHINGTON STATE AND TAIWAN

Taiwan is Washington State's third largest trading partner. The ports of Washington State, geographically closer to Taiwan than any other major U.S. port, serve as an important entry and exit point for the Pacific Northwest and the middle American states. Imports from Taiwan through Washington ports grew to over $3.6 billion in 1987. Exports, including goods originating from throughout the U.S., in addition to products grown or manufactured in the State, were greater than $753 million.

Although Washington State benefits from the total volume of products that pass through its ports, a significant portion of Washington State exports originate outside of the State. The largest dollar value export in the period 1983 through 1987, was corn or maize, with exports in 1987 estimated at $160.3 million. Very little of this corn originates in Washington State. Other major exports that pass through Washington ports that do not originate in the State include cigarettes, cotton, passenger motor vehicles, and soybeans.

Major exports to Taiwan that do originate in the State include airplanes and parts, woodproducts, and apples. In addition, at a lower but still significant level, are instruments, medical devices, computer products and software. Engineering and other services are becoming increasingly important.

Because trade statistics produced by the U.S. Department of Commerce do not indicate the point of origin of exports, it is difficult to accurately estimate the volume of exports that originate in Washington. However, this level is certainly less than 40% of total exports from Washington State ports, and may be as low as 30%.

On the import side, major products passing through Washington ports include footwear, telecommunications and sound repair equipment, furniture, toys, apparel, and rubber or plastic articles. Washington consumes only a fraction of these products, most of which are shipped to interior states.

III FACTORS AFFECTING TRADE

The level of trade is influenced by factors in both Washington State and in Taiwan. For exports to Taiwan, these factors are primarily associated with trade management in Washington State, and by trade controls and other restrictions in Taiwan. These factors are not unique to Washington State or to trade with Taiwan, however, a few significant areas are discussed below.

Taiwan has taken important steps over the last two years to reduce tariffs and to remove other restrictions to trade. Because of the concern over the large trade imbalance with the U.S. and the rest of the world, reductions in tariffs are scheduled to continue. Reduced tariffs, however, have not been reflected in equal degree to lower retail prices, in part because of restrictive and controlled distribution networks in the private sector. This problem has received attention in Taiwan, and distribution will improve as competition increases and products are more effectively marketed through regional and local outlets.

In Washington State, WSTTA works primarily with small and medium-sized businesses which do not have extensive experience in exporting. It has been important to emphasize to these firms the need for commitment and the development of an export plan that includes market research, identification and assessment of agents/distributors, design and implementation of an effective promotional campaign, the development of a close working relationship with and active support of the agent/distributor, quality control of the product, and perseverance and patience.

Recent problems that Washington State companies have experienced with importers in Taiwan are not unusual, and include mis-communications regarding invoices and letters of credit, inadequate labelling, and problems with ingredients in processed food products. The WSTTA office in Taiwan has been able to provide a second link between exporters in Washington State and importers in Taiwan and to assist in solving these problems.

IV TRADE RELATIONS BETWEEN WASHINGTON STATE AND TAIWAN

Taiwan in the last year has taken a more flexible approach towards developing economic relations with other countries, although she has maintained a somewhat conservative attitude towards her relationship with the states of the United States.

Because of Taiwan's increased visibility as a manufacturing and trading economy, now the 13th largest trading economy in the world, and because of a concern over the impact of continued isolation in international discussion, Taiwan has increased her participation in international organizations, such as the Asian Development Bank; and she has expressed interest in joining GATT. Taiwan has also been active in expanding trade relations throughout the world, including trade with East European countries. Recently a trade promotion group comprised of businessmen and representatives of the China External Trade Development Council visited the Soviet Union.

The attitude of Taiwan toward the separate states of the U.S. has also been influenced in part by political considerations. Although Taiwan has actively promoted a "buy America" campaign to increase imports and to moderate criticism from the U.S. of Taiwan's surplus trade balance, Taiwan has been somewhat selective in how trade with the individual states is promoted. The goal in this selective treatment of states has been to encourage the signing of sister-state agreements between the individual states and the Republic of China on Taiwan. At the present time, 33 states have entered in such an agreement. Washington State does not currently have a sister-state agreement with Taiwan.

Benefits that are accorded sister-states include partial waiving of rent for official state office space in the Taipei World Trade Center, and the sponsorship and support by Taiwan of trade and buying missions to those favored states. Because the office-showroom representing Washington State in the World Trade Center is managed by WSTTA, which is not considered an official state agency, WSTTA pays the full rent. At the present time, Maryland is the only other state to have an "unofficial office" in the World Trade Center, and also pays full rent.

Although the initial response by Taiwan was positive to the creation of WSTTA as an organization to increase communication and economic exchange, the Coordination Council for North American Affairs (CCNAA) and the Ministry of Foreign Affairs of the ROC, now regard WSTTA as an impediment to an "official" relationship between Taiwan and the State. It is interesting to note that the current level of expenditures for trade promotion and increased communication with Taiwan, is the result of the formation of WSTTA as a separate trade promotion organization and would not have been possible within the current State budget without the partnership between the public and private sectors represented by WSTTA.

There is a range of opinion in Taiwan over trade policy. Differing points of view between government officials, and between government officials and the legislature, are frequently discussed in the press. In the last two years, the Legislative Yuan has become increasingly independent and outspoken. Policy guidelines set at the central government level are not automatically ratified at the legislative level. Legislators are also more sensitive to their constituencies and to their own interests. Taiwan has learned well from the example of the U.S. If we applaud the growth of Taiwan into more pluralistic, open society, then we must accept what that freedom of expression brings.

In the Spring of 1988, there was critical comment in the Legislative Yuan of the ROC, and later reflected in the press, directed towards Washington State. In part, these comments reflected genuine concern of individuals, and the legislators who spoke for them, at the impact U.S. imports were having on their livelihood. In this incidence, the imports were apples from Washington State, and effected growers in Taiwan who could not easily compete in terms of quality and price with the imported product. Similar concern was expressed over the importation of turkey parts from other states, which was resolved after a threatened U.S. retaliation and long discussion.

It would be a mistake to dismiss these problems lightly. They reflect in many cases, discontinuities in Taiwan's economy as it grows progressively from an agricultural base, to low value-added, to high value-added manufacturing. One approach to better communication has been suggested by a regional economic development organization in the Yakima valley, and entails developing a process by which farmers or farmers' associations from Washington State could meet face to face with similar groups in Taiwan to discuss common interests and problems.

Just as there is a range of opinion and evolution of attitudes in Taiwan, there is a diversity of opinion and evolution of attitudes regarding Taiwan in Washington State, both in State government and in the private sector. At one end of the spectrum, it is felt that the State should establish a more formal relationship by signing a sister-state agreement with the Taiwan, and thereby be regarded as a "friendly" state and receive more favorable treatment in trade issues. At the other extreme, there are those who feel that there should be virtually no exchange between Washington State and Taiwan other than transactions between business interests. Within this range of opinion there are many options to improving communication between Washington State and Taiwan that should be explored.

The role of WSTTA is to facilitate and promote trade, and good communication is important in that process. As a new and small organization, WSTTA out of necessity has focused its efforts on what is possible, in the short term, to improve communication between interests in Washington State and Taiwan. In addition to providing trade and background information to businesses and other visitors in both Washington State and Taiwan, WSTTA has supported trade and investment missions to Taiwan and encouraged the exchange of ideas at all levels, including the formation of substantive sister-city and sister-port associations. The proposal put forward by a regional economic development organization to organize a discussion between farm groups in Washington State and Taiwan should be supported, and similar exchanges between other groups encouraged.

Legislators from the Washington State Senate and House could visit Taiwan more frequently and meet with their counterparts in the Taiwan Provincial Assembly. Legislators in Taiwan should be encouraged to visit Washington State. Consideration should also be given to a more active role by officials in State government, including possible visits to Taiwan by agency heads, and the Lieutenant Governor or Governor, in order to become better acquainted with the business environment in Taiwan and its potential.

A closer working relationship would benefit both Washington State and Taiwan.

Senator ADAMS. Thank you, Mr. Allen.

We appreciate very much the testimony of the members of the panels.

Senator Cranston, do you have any questions you would like to address to the panel?

Senator CRANSTON. Well, I would like to ask each of you just very briefly—we're getting into a time problem—to say, if you had the opportunity, what one particular piece of advice you would give President Bush as he goes on his Asian visit.

Mr. Harding.

Mr. HARDING. We were talking about this earlier, and I'll let Mr. Bill Abnett, who has a strong opinion, respond to that.

Would you like to?

Senator ADAMS. Mr. Abnett.

Mr. ABNETT. I think that the first thing that President Bush should do is, in close association, intimate association with Congress, to use America's leverage and bargaining power with China; and, in exchange for amending the Jackson-Vanik amendment, taking China off the list of countries in Title 4 of the Trade Act of 1974, to give China unconditional MFN, paving the way for China's becoming a beneficiary of GSP, or the generalized system of preferences, in exchange for—and this is the tricky part—strong commitments on China's accession to the GATT, and strong commitments bilaterally on removal or serious reduction of import barriers, strong intellectual property protection, and other bilateral facilitation.

I think that United States-China trade relations can't improve beyond a certain point unless we do that.

Senator ADAMS. Thank you, Mr. Abnett.

Mr. Baskerville.

Mr. BASKERVILLE. If I had the opportunity to give advice to President Bush, the first thing I would say is ask him to look into the decision to make the Japanese Emperor's funeral the occasion of his first trip to the Far East, and to see whether the reactions of other Asian countries are taken into account in making that decision.

And if I still had his ear, I would slip in that he should anticipate a more enlightened policy from the Soviet Union; anticipate that, and try to figure out how we should handle it, because I think it will pose some new dilemmas for us.

Senator ADAMS. Very interesting. One of us made comment on that.

Mr. Manring.

Mr. MANRING. My views would be similar to those of Mr. Baskerville. I would certainly suggest that he not be tunnel-visioned to Japan, or to Japan and China. There are other countries in the region who have some questions about the increasing strength of both those two countries, and those other countries are important, play an important role strategically, and will be increasingly important.

Senator ADAMS. Thank you.

Mr. Allen.

Mr. ALLEN. I would like to follow up on the comment that was made by the earlier panel in terms of listening to what Asia has to say. I think that any visitor to East Asia should also use their eyes. In Taiwan, which President Bush will not visit, it is important to pick up information that's visual, for example, the type and size of automobiles on the road, the range of products on shelves in supermarkets and the style of clothing in department stores, speaking strictly from a trade perspective.

Senator ADAMS. Thank you, Mr. Allen.

I just have one comment, then I will turn to Senator Cranston again. Both he and I have recently attended a very extensive seminar on United States-Soviet relations by a series of scholars, a series of European parliamentarians, and a series of members of both the House and Senate of the United States. And one of the points that, I think, only began to be explored was what was mentioned by two or three of you. There will undoubtedly, according to the consensus of that group, be a definite change in Chinese-Soviet relations within a relatively short period of time, and that the United States should be prepared.

And my answer to you, Senator Cranston, would be, I would be prepared to discuss with the Chinese on the occasion of this visit the change caused by both glasnost and perestroika, and what it means in terms of the Chinese change in military posture, for one thing, on that border; and second, in increase in trade.

Senator Cranston, do you have any concluding remarks you would like to make to the panel and to those assembled here? We are very pleased to have you in Seattle, and it is personal matter to me, and for the community.

Senator CRANSTON. Thank you very much, and thank you for presiding all the way through. Since you started so well, I thought you should finish.

Mr. Manring, I would like to ask you if you would send me a written response to this question. I was intrigued by your remarks about how short-term influences on decisionmaking in America hurt us in foreign trade. I've long felt it hurts us in many domestic ways. If you would write to me your thoughts on its impact on foreign trade, and also any suggestions as to remedies to get American corporations to think longer term?

I imagine tax changes is one of the significant ways, and for that reason I'm a little bit different from most Democrats. I support the concept, but not necessarily the specifics, of President Bush's suggestion that capital gains should be reduced.

If you have any specific suggestions, I'd appreciate it very much if you'd write to me. And so that I'll see it, please put "Attention, Gerald Warburg" on the letter. Gerald Warburg is my aide here. I get so much mail that I often don't see what I want to see, and that would be the way to get it to me.

I thank all of you for your presence and your participation. Your testimony has been fascinating in many respects, and very helpful in many respects.

We have tremendous problems, but I think also even greater opportunities, across the Pacific, Your advice, and help, and counsel to us on all of that is of immense value.

I am very grateful to you all.

Senator ADAMS. Thank you, Senator Cranston.

The record will remain open for further comments, as I indicated before, for five days.

The subcommittee will stand in recess subject to the call of the chairman.

[Whereupon, at 12:35 p.m., the subcommittee recessed, to reconvene at 10:10 a.m., February 15, 1989, in Los Angeles, CA.]

AMERICA'S ECOMONIC AND SECURITY INTERESTS ON THE PACIFIC RIM: BUILDING FOR THE 21ST CENTURY

WEDNESDAY, FEBRUARY 15, 1989

U.S. SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Los Angeles, CA.

The subcommittee met at 10:10 a.m., at the James West Center, UCLA, Los Angeles, CA, Hon. Alan Cranston, presiding.

Present: Senator Cranston, Congressman Mel Levine, and Lt. Gov. Leo McCarthy.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. The hearing will come to order. I am delighted to be back in California to convene this unique set of hearings on American interest in the Pacific Rim. I thank all of you who are present. I want to note the presence of the members of the diplomatic corps who are seated over here from Asian countries. I am particularly grateful to you for attending. I thank Congressman Mel Levine and Gov. Leo McCarthy, who is the Governor of our State at this moment, for their presence and their participation in this gathering.

The morning's hearing is the second in a series focusing on our long-term goals in Asia. Our charge is to think imaginatively about the challenges of the coming century and to prepare for the opportunities we will have over the course of the next generation. We are pleased to have with us a very distinguished group of business, academic, and community leaders from who we look forward to receiving wisdom gained from day-to-day experience in grappling with these issues.

To celebrate our respite from the ways of Washington, I intend to experiment this morning with something a little bit different, a roundtable format. I've asked each participant to offer brief remarks on their field of expertise, not to exceed 7 or 8 minutes. I then look forward to moderating a freewheeling dialog—I hope it will be very freewheeling—on our broad topic among our panel of expert witnesses.

Before you begin, let me just share a few brief observations with you. Next week President Bush makes an important statement by making Asia his first foreign destination in his Presidency. A few days ago, I wrote President Bush laying out a series of proposals for new initiatives on Asia policy. I have released the text of this letter publicly this morning and as I discuss some of my thoughts in these hearings, I look forward to following up on our discussions and sharing with the White House some of the wisdom gained from our witnesses today.

I would like to set the table now, so to speak, by putting forward a tentative agenda for our policymakers and then inviting your comments over the course of the hearing. My premise is that sweeping changes throughout the Pacific provide tremendous challenges and opportunities for the United States. Japan is awash in capital, its economy surging ahead, its military budget now the world's third largest, its foreign development assistance program second to none and its trade surplus for the United States still hovering at $55 billion annually.

China is struggling with extraordinary economic reforms and a GNP which promises to double in less than 10 years. On Taiwan, economic prosperity is bringing political reforms and new diplomatic opportunities. South Korea, proud of its own economic miracle, is showing new political and diplomatic maturity, even as the younger generation presses for reexamination of ties with the United States.

The Philippines are forging ahead with their own economic revival while coping with the twin burdens of Communist insurgency and crushing international debt. As new leadership advances throughout the region, we must keep pace, keep involved, and provide our own leadership. If we don't, we will forfeit the ability to shape these changes to our benefit. I believe new initiatives are urgently required to secure American interests in East Asia as we build for the next century.

Highlights of the specific policies I am advocating include very briefly, the following. One, the United States should undertake a diplomatic initiative to establish a Pacific Basin forum for the address of regional concerns. This proposal should include establishment of annual summit level meetings styled after those currently held by key NATO presidents and prime ministers.

The forum should also make a deliberate effort to reach out to the Soviets and their allies, Vietnam and North Korea, to encourage participation in a dialog about such common concerns as free trade, economic development, and security confidence building.

Two, on security issues the United States should: (*a*) press for a long-term solution to the Philippines' base issue which addresses Manila's debt concerns while securing United States access to these crucial facilities at least through the end of the century; (*b*) welcome Japanese payment of more of our on the ground military costs like Okinawa, while discouraging Japan from assuming more broad military missions and recognizing that with the world's third largest military budget, Japan has already really rearmed; (*c*) continue selective sales of defense arms to Chinese on both sides of the Taiwan straits; and (*d*) make clear that our troops in Korea will remain as long as they are needed as a deterrent against the north.

Three, on the trade front, we need to resist sweeping protectionist measures like the tariff bill, but we must not unilaterally disarm in the trade competition. The next expedited section 301 reviews must be used for swift and certain retaliation when Americans encounter sector-specific discrimination. We need to use GATT mechanisms to open closed foreign markets, especially to our agricultural products, high-technology products and financial services industries.

Fourth, and finally, in the area of education, we need a major new commitment to combating illiteracy, whether it is illiteracy in English in our workforce or international illiteracy in the board room. To create new export opportunities, we need to declare war on ignorance. George Bush has pledged to be the education President. He can fulfill that commitment by joining Congress in leading a new national campaign to improve American training in math, science, and foreign languages. There's more, much more, to be done in developing an American agenda for the Pacific century. I look forward over the course of the morning to more of your ideas as we weigh the best means to prepare for the challenges ahead.

I again thank each of you for your time and your contributions. I look forward very much to our discussion and now, I would like to call on the first member of our roundtable, the Honorable Leo McCarthy, normally Lieutenant Governor of the State of California, but today is Governor and a member of the California Trade Commission. Leo, delighted to have you with us.

STATEMENT OF HON. LEO McCARTHY, LIEUTENANT GOVERNOR OF THE STATE OF CALIFORNIA, CALIFORNIA WORLD TRADE COMMISSION

Lieutenant Governor McCarthy. Thank you, Senator. Thank you for arranging these meetings, Congressman Levine, our other panelists, the honorable members of the Councilor Corps who are here and all of the important people who come to listen and to participate in this hearing. We all understand what international trade and foreign investment mean to the California economy. So, this is an extremely important meeting.

I would offer a perspective of a State official just returned from another economic development mission to Pacific Rim nations, this time with a group of a dozen California business persons to Indonesia, Taiwan, and Hong Kong. Of course, as a State official, I recognize the State government has a limited set of tools we can use to improve international economic relations. We cannot impose sanctions or trade barriers. We cannot build better products. That is not the role of State officials but rather the private sector. But we can, representing California, serve as a facilitator, a promoter of the State's products and services, a connector between foreign business people and California and American business people. We can be an intermediary to try to bring together those would-be partners and we can do other things.

Well, what are the circumstances to allow us to function in any of these ways? After years of effort to increase trade and especially from our point of view, exports to try to hold down the deficit and held indigenous industries here, what is most striking is how far we still have to go. On a similar trip to the Pacific Rim 5 years ago, we heard why American efforts to do business in the Pacific Rim were sidetracked. It was suggested 5 years ago that many American business persons were ignorant of special needs and cultures and practices, and that ignorance reduced business opportunity.

It was said American businesses would not adapt for targeted markets. Our carmakers wouldn't build for driving on the lefthand side of the road. Our foods were packaged in colors that had negative connotations to would-be buyers. Very few of our marketers spoke the language of the potential trading partner. That was 5 years ago. Yet, last week, in talking to a top group of leaders, economic leaders from Hong Kong, we asked what we could do to improve the sale of American products and services in that area and their almost unanimous response was, "You need greater sensitivity to the special needs of that market." They say we are still not paying enough attention to what they would buy. Well, that was a Hong Kong point of view.

But on our recent trip we also met with the Minister of Economic Affairs in Taiwan, and much to our surprise, he said that with a few exceptions, California was nearly invisible when it comes to making deals in Taiwan. That is true even after the last several years where some of the previous arbitrary restrictions have been eliminated. Some more are to be eliminated. Well, there are always two sides to the interpretation of why international business transactions may not occur from the American side. Sometimes they bump into unnecessarily costly and time-consuming obstacles in their attempts to do business.

But, in Indonesia, we talked to the American Chamber of Commerce group, to two dozen American business men and women who are doing business there, who told us about a number of the obstacles in Indonesia but who yet bemoaned the fact that there were not many more Americans, Californians showing initiative in that country with its enormous raw resources and potential growing marketing of 178 million people. They stated over and over again that more American marketing initiative was necessary in Indonesia.

They stated true—also that there was an unpredictable local bureaucracy but that with patience and a long-term view of what was possible, there was money to be made. Despite from 5 years ago perspective and from the recent trip's perspective, despite the conclusion that maybe things seemed to stay the same, our economic relationships with many Pacific Rim countries are obviously undergoing dramatic change. And that is for many reasons. Many California business men and women, for their companies, have developed personal relationships with their counterparts in the Asian Pacific region. The dollar is down. The threat of severe protection is lost. Seen in the Congress of the United States has stimulated foreign political leaders and foreign business leaders to begin to knock down some of the barriers that American businesses have been complaining about.

In short, there is a changing environment and what it requires is tenacity and toughness on our side but the certainty that we see the need to pursue our share of those foreign markets, if you will. Senators and Congressmen, the most hopeful sign of good things to come, I think, is the stunning growth of the Asian-American community as a catalyst for trade in the State of California. These Californians have personal and cultural knowledge of Pacific Rim nations. They understand the subtleties and nuances of customs and languages. Many of our own California residents in the Asian-American community make one or two monthly trips to different nations, not just one, but several nations in the Asian Pacific region.

Today in this audience, there are members of the Pacific Leadership Council. Maria Hsia is one of them. You'll hear from her in a moment. Tomorrow's hearing in San Francisco, we are going to hear from the Asian American Manufacturer's Association. David Lam will be representing that group the Chair and CEO of Link Industries. Individuals in this particular group of Californians are dramatically strengthening our potential to fasten those economic ties in the Pacific Rim. And if we collectively are smart, all of us, government officials and all kinds of business leaders in this State who want to do business in the rim, we will learn from our fellow Californians.

We should see them as an untenured faculty, if you will, who should all be given honorary Ph.D.'s in international trade. They are an enormous asset. I close with two specific additional recommendations to move California's economy toward a more successful range of trade ventures. First, we must produce more Californians educated in the cultures, economies, laws, and languages of our present and future trade partners in the Asian Pacific region. Senator, I've heard you comment on this many, many times. You are right on target. This is primarily a State responsibility and out of Sacramento, all of your Californians should insist that we do a much better job than we do.

There are only 200 American business executives in Japan who speak and read Japanese as compared to about 10,000 Japanese executives in America who speak and read English, passably. Similar comparisons are true for other nations and other tongues. Second, California's infrastructure including its seaports and airports and access to them is disastrously underfunded. That has been historically both a State and a Federal responsibility. Now, this requires also a lot of initiative in Sacramento, an initiative for a funding of our infrastructure on at least a 10-year plan. You Californians should know that no decent planning is really going on. Something as practical as making sense out of the Alameda corridor leading into LA harbor desperately needs to be done to facilitate the movement of goods carried by rail and truck. That's just one example of infrastructure deficiencies that we need to attend to.

Senator, what you are doing here is extremely important. I, as one Californian, want to express my gratitude to you and to Congressman Levine. Thank you.

Senator CRANSTON. Thank you, Leo, very much for very constructive testimony or very thoughtful testimony. I appreciate your good words about my efforts on this front.

We'll now go to Congressman Mel Levine, who will make his statement on the matters that bring us together. Let me urge all the members of the panel to please follow the testimony closely so that you can expand upon any point that is made, or to make it more stimulating, differ where you have a different view. In that way, where we get a clash of opinions, we will really learn more than if we all just tend to be saying the same things and agreeing on everything. So, Mel, thank you very much for your participation.

STATEMENT OF HON. MEL LEVINE, A U.S. REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. LEVINE. Thank you, Alan. That is a suggestion to make very controversial comments and seek disagreement.

I want to thank you, Alan, for convening these hearings and for asking me to participate in them. It is a real pleasure to be here with you and with Leo and with such a distinguished panel of experts with regard to these important issues and to be back home here at UCLA. These are, obviously, important hearings and I am very pleased to participate in them.

Mr. Chairman, California's link to the Pacific Rim economies has been a critical factor in our State's economic growth. Similarly, the Asian community has played a vital role in our State's business, cultural, and civic affairs, and I want to expand upon Leo's comments just very briefly. I think that the Lieutenant Governor was right on target when he commented with such excitement and such substance about the extraordinarily important role of the Asian-American community here in California. Maria Hsia, for example, as Leo has already indicated, has played a remarkable leadership role along with a number of others, and has had—and this community has already had and will have in the years to come, a dramatic impact upon all of the issues that we're discussing here today.

I hope that these hearings will focus on the key challenges that Congress will confront in fashioning an economic policy for the 1990's while at the same time highlighting issues of particular concern to California's Asian-American community. Our agenda today is very broad, but I feel it is appropriate and necessary that we stress the interrelatedness of the various aspects of our policy toward the Pacific Rim. And I want to commend Senator Cranston for fashioning hearings designed to do just that. Too often we tend to see trade matters as unrelated to larger security concerns. Sometimes trade relations can frustrate political relationships, or we fail to view bilateral issues in the broader regional context. There is no question that a more comprehensive approach is overdue. The dramatic growth of the Pacific Rim economy coupled with the great gains for democracy in the region in recent years leads me to believe that we may now have a chance to develop a more elaborated, integrated, and multilateral approach to regional issues.

I am intrigued by suggestions made by former Secretary of State, George Shultz, last year that we should consider developing a forum for increased coordination of policies and ideas in the Pacific Basin and I understand that Secretary Baker has also been interested in perhaps duplicating the G7 concept in the Pacific region and I welcome Senator Cranston's initiative that he announced for annual summit meetings among Pacific Rim leaders and for more coordinated activities along the lines that have been suggested by Secretary Shultz and Secretary Baker.

I would like to further explore these proposals today in hope that we could make some progress in articulating precisely what U.S.

goals might be in setting up regional institutions to deal with the variety of economic, security, trade, and other concerns.

Also in the broader context, I believe perhaps the greatest looming issue is determining the regional role that Japan will play, politically, economically, and militarily in the next century and whether this role will be assumed intentionally or by default.

It seems inevitable that Japan will have to accept more responsibilities in a number of areas but how willing is Japan to assume a leadership role, and what problems would increasing Japanese importance in the political and military spheres present for the United States and for other Pacific Rim nations? I am concerned that Japan, thus far, has been unwilling to truly acknowledge that the United States can no longer serve as the engine of growth for the developing world.

A reorientation from the "Japan, Inc." concept to the "Japan, marketplace" philosophy does not appear to be imminent in the Halls of MITI. Nevertheless, the long-term economic health of the Pacific Rim requires that Japan absorb a greater percentage of developing country exports and rectify the current large trade imbalances. This is, I hope, one of the things we mean when we speak of a greater leadership role for Japan. In this regard, I'd like to explore the possibility that Japan will come to accept a more regional as opposed to nationalistic approach to Pacific Basin economic issues.

Closer to home, I would like to discuss what we can and should do to improve U.S. competitiveness in general, excuse me, and export opportunities for Californians, in particular.

I have developed several initiatives aimed at boosting our long-term competitiveness. First, I believe we need to promote what we have called an industry-led strategy for research and development in key high-technology sectors of the economy along the lines of the Sematech example in the semiconductor industry. I have started a high-definition television task force in Congress to encourage similar private sector initiatives and private-public partnerships in the critical technology of HDTV, and I will be exploring other industries, such as optics and biotechnology, in which similar consortia could preserve the current U.S. technological advantage.

I have also introduced legislation in the House to establish a civilian DARPA, Defense Advanced Research Projects Agency. This agency would help to develop and commercialize advanced new products and technologies so that a larger share of Federal R&D budget would fund research with potential commercial applications. And to increase our competitive footing in education, the most important investment we can make as a nation, I have introduced a bill to lengthen the school year in the United States, and will be working to reform Kindergarten-through-12 math and science education to ensure that our children get an education in our country that is second to none internationally.

I have also drafted legislation which I intend to introduce next week in Congress to make the Secretary of Commerce a statutory member of the National Security Council along with the Secretary of State, the Secretary of Defense, the President and the Vice President to underscore the vital importance of economics and trade-related issues for our national security.

National security decisionmaking should incorporate the views of our primary spokesperson on industrial competitiveness and trade issues—the Secretary of Commerce.

At the State level, California has done a tremendous job in developing trade promotion and export finance programs in the past few years. As the new cochairman of the Export Task Force in the House, one of my main priorities is to build support in Congress for programs that will fill the gap between State loan guaranties and large-scale private funding for exports.

I also feel strongly that we need to bolster both the local Department of Commerce offices and the Foreign Commercial Service if we are serious about promoting exports. A Commerce Department study last year indicated the U.S. Commercial Service has a total of 723 overseas personnel while Japan has nearly 6,000 in their comparable agency. The disparities are particularly great in East Asia and we need to redress this imbalance urgently.

It would also be helpful to discuss the issue of export controls, both because of their importance to the California high-technology industries and because this issue could become a major irritant in trans-Pacific trade. The rapid pace of technological development and the growing involvement of China and the Soviet Union in regional trade will make it increasingly difficult for COCOM to monitor the flow of information and technology to the nonmarket economies.

At the same time, the recently proposed agreement to license F-16 fighter technology to Japan has deepened my concern about the advisability of sharing key technologies with our trade rivals and partners even though they may be military allies. Perhaps we need to refocus the mandate of our export control policy to give higher priority to our long-term industrial competitiveness.

In addition, I look forward to hearing more about the particular concerns of the Asian community in California and of their interest in California's Pacific Rim relationship. Recent immigrants from Asia will be absolutely vital in helping us to overcome our ignorance of Asian cultural and business practices, a factor often cited and, I believe, accurately, as contributing to our lack of success in cracking Asian markets. I hope we can also keep the field of discussion open to such important issues as U.S. immigration policy, crime, drug abuse, and problems of discrimination which are of particular concern to the Asian community, and should be of deep concern to us all.

I look forward to exploring these and other topics today and tomorrow with the distinguished panel experts whom the Senator has assembled. I hope our meetings can also establish some basis for an ongoing exchange of ideas between academic experts, business and community leaders, and Members of Congress regarding the development of U.S. foreign economic and defense policies on the Pacific Rim.

I join Leo in complimenting Alan on his leadership over the long haul on these issues, and his leadership in putting together a series of discussions which are of such vital concern to us all.

Senator CRANSTON. Thank you very much, Mel, for that very thoughtful and, I think, very stimulating testimony with a lot of solid ideas you suggest that we explore and things you suggest we should do. Our next witness is Victor Li, president of the East-West Center, Honolulu, Hawaii. He is the first of three witnesses today, the others being Diana Kang and Maria Hsia, who exemplify exactly what both Leo and Mel were speaking of, of Americans of an Asian heritage, who bring to these opportunities and challenges and problems in Asia the background and the language skills and the understanding of cultures and practices and ways of doing things economically that have been so lacking in our society. And their expertise and their background can be a tremendous value to our country as we seek to improve our relationships and our performance in Asia and in trade, security and other matters.

They are a very great resource in our society that is not available to most of the rest of the world because of the diversity of our people. So, Victor Li, we welcome you.

STATEMENT OF VICTOR LI, PRESIDENT, EAST-WEST CENTER, HONOLULU, HA

Mr. Li. Thank you very much, Senator and thank you for organizing these hearings and inviting me here. The Pacific era surely is coming. Just note three points. By the year 2000 the aggregate GNP's of the countries of the three major regions of the world will be about equal: North America, the European Community, and East and Southeast Asia will each produce about one-fifth of the gross world product. Note also that in 1960, North America produced over one-third of the gross world product, while East and Southeast Asia had only one-tenth.

Second, our Asian trade by the year 2000 will be double our European trade. Again, in 1960, U.S. trade with Asian was half of our European trade.

Third, in military and political terms the United States and the Soviet Union will still have extraordinary influence, but there will be a large number of large and medium regional centers of power, including many in Asia and the Pacific.

All of this does not necessarily produce a Pacific era, but it does mean that the Pacific will become even more important and that this region will be increasingly multipolar with many countries claiming a significant say in the management of regional and world affairs.

The growth of this region, however, has taken place at an extraordinarily rapid rate. Just think how different the situation was only 15 or 20 years ago. As a consequence, adequate processes and mechanisms have not developed by which the countries of the region can effectively manage the full range of their dealings with each other.

I think Congressman Levine is exactly right in saying that a critical international issue of the coming decade is the need to create new means by which policymakers and governments of the region can better understand the upcoming issues, and have more sophisticated forums for exchanging views and affecting each other thinking before actual disputes flare into the open.

Much more extensive data gathering and analyses are needed on the new problems and issues. Our national attention is presently focused on a range of trade and investment issues. But I believe we also must think anew about America's strategic role in a multipolar world of Asia and the Pacific. In addition, we must understand much better the practical consequences of the enormous diversity in culture institutions and values that exist in the region.

The above scholarly and research work must be done in new ways that stress collaboration with colleagues throughout the region. We will not be "studying Asia" the way one studies a painting or a tree. We will be forming working partnerships with our counterparts throughout the region to develop together the knowledge base and the ways of thinking which will enable the region to prosper peacefully.

Let me focus now on a domestic U.S. problem, following on the Lieutenant Governor's comments. I think the Pacific era is producing a critical national issue for the United States which we must confront in the coming decade. This country's current capacity to deal with the Asia Pacific region is limited, and growing far too slowly. To cite just one example, in 1983 the number of college students studying Japanese in the United States was only 16,000. Now, over the next 3 years, the number studying Japanese increased by a striking 45 percent. But in absolute terms, this came to a paltry 23,000. By comparison, some 411,000 college students studied Spanish and 275,000 French. Japanese, incidentally, is seventh in popularity, after German, Italian, Russian and Latin, and Chinese is ninth, after ancient Greek.

At 23 students a year, most of whom take only 2 years or less, Americans will never reach the point where meetings and conferences can be held in Japanese or where an entire cadre of American businessmen and government officials can deal comfortably and knowledgeably with Japan.

The same can be said about dealings with China, Korea, Thailand, Indonesia. Moreover, information about Asia will remain the province of a small number of specialists and will not penetrate all sectors of American society and consciousness.

Let me put this in another way, at the rate we're progressing, Washington can help remove the legal barriers to trade and investment in Asia. But then Americans will still be unable to penetrate the equally obstructing cultural barriers. And this time, a good part of the fault will be our own.

I believe that it is these cultural barriers that account for some of the disappointing trade figures, even after legal obstacles have been removed by foreign governments. In 1987, for example, Japan increased its import of manufactured goods by a striking 22 percent. The Asian countries increased their sales of such products to Japan by nearly 60 percent. European sales grew by 27 percent. The sale of American manufactured goods, however, grew by only an astounding 0.1 percent. I do not think we can blame the Japanese Government for the sorry situation, but rather we must reexamine our own reluctance or inability to market abroad and to properly service Asian customers.

It is not that the United States did not have much contact with Asia and the Pacific in the postwar period. But our dealings have focused more on political and military matters. Our involvement in the economic affairs have been much more limited, even though economic development has been at the top of most Asian agendas.

Moreover, as the preeminent power, we were used to doing things our way, whether in pursuing Pax Americana or in marketing goods through the assurance of the "Made in U.S.A." label.

Now, we have to adjust. A major national task for the United States in the coming decade is to augment our national capacity to deal effectively with a multipolar dynamic Pacific. We are doing far too little in this regard.

An important aspect of our difficulty in adjusting to the new Pacific is that the changes we must make are not just political and economic, but also are heavily cultural. And in cultural terms, Asia and the Pacific are distant places for us.

As a great continental country, the United States tends to focus inward in dealing with most of our concerns. This was certainly true until World War II and is still quite true today in economic and cultural matters.

When we did look outward, we generally look in the direction of Europe, again for good and proper reasons. This country's historical ethnic and religious roots are essentially European.

But now we must face Asia and the Pacific. We cannot romanticize these countries and cultures as Rousseau, and Voltaire did with China. We cannot regard the region as backward or semicivilized as the European powers did in carving out their colonial empires of the past. And we certainly cannot ignore these countries, because our future is very dependent on how well or poorly we deal with them. This country must make a cultural shift so that our sights include the Pacific as well as Europe.

Some of the processes are already taking place, as others have mentioned, as American population patterns change. One of the most vital resources America imports from Asia is not television sets or agricultural products but her people. Asians are now the largest group of legal immigrants coming into the United States, comprising about half the total. Twenty-five percent of undergraduates at Berkeley, at UCLA, 14 percent at Harvard are of Asian origin. By the year 2000, there will be nearly 10 million Americans of Asian descent living in the United States. In my State of Hawaii, in not very many years from now, Filipinos will be the largest ethnic and voting group. With the passage of a little more time, Asian-Americans will play a much more prominent role in this society, and in doing so, bring into mainstream America a much larger element of Asian culture, languages, and skills.

As we look at long-term changes, the most important ones for us should be centered around the content and direction of the education we offer the next generation of Americans. These include a basic revamping of our precollegiate and liberal arts curriculum so that the general public will have a far more extensive base of knowledge about the Asia Pacific region. To do so, we must develop not only new teaching materials and retrain teachers, but also must change our thinking about the importance of that region for our individual and national future, the value of foreign language study, and the need for more extensive media coverage of Asia and the Pacific.

At the same time, we have to develop a variety of short-term solutions which will enable our business men and women and other professionals to be more successful in Asia now. In particular, we need means which will facilitate dealings between the region and Americans not very familiar with the region. Some examples are data banks and other information resources, and the expansion of trading companies which can assist small and medium businesses.

To do all this will require leadership and a concerted effort from all segments of our Nation, a cohesive partnership of government, business, the media, and educators. The gradual process of change which has served us well in the past is not now adequate. We need to make a national commitment and an investment commensurate with the national task before us. Thank you very much, Senator.

Senator CRANSTON. Thank you, Victor, for what I think is very remarkable testimony. The points you made are fascinating, very succinct, very thoughtful and I appreciate them very, very much. Your East-West Center must be a very fine institution. I will have to visit it sometime.

Mr. LI. It is indeed, sir. Thank you.

Senator CRANSTON. We'll now hear from Ms. Diana Kang, vice president, King International Group. Diana formerly worked in the U.S. Senate. We welcome you back to the Senate forum and are delighted to have you with us today.

STATEMENT OF MS. DIANA KANG, VICE PRESIDENT, KING INTERNATIONAL GROUP

Ms. KANG. Thank you very much for the opportunity to participate in today's hearing. It is also a great personal honor for me to share the table with such distinguished panel of guest speakers today. I think one of the problems following such great speakers is that I am going to be repeating a lot of the things they have already mentioned. So, bear with me.

This morning I would like to focus my comments on the current United States-Korea trade relations and what I see as some of the more important trade issues as we move into the 21st century. Before I begin, I would like to say that my comments are based on personal observations and that they do not, in any way, represent the views of my firm or any other organizations that I belong to.

As you know the United States-Korea trade relationship is of great importance to both nations. The United States has long been the largest market for Korean exports with two-way trade recording over $25 billion in 1987. Korea now ranks as the sixth largest trading partner of the United States with about 40 percent of the Korean exports headed for the United States market. Korea is also the largest buyer of United States agricultural products accounting for about $2.3 billion in 1988, second only to Japan.

As we all know, Korea achieved its first current account surplus against the United States 3 years ago, which has grown to about $10 billion in 1987. As a result, the United States trade imbalance with Korea has become the overriding factor in the bilateral trade relations. Koreans believe that they have made and are making significant improvements in market liberalizations. Americans, on the other hand, feel that the Korean market still remains very closed. However, thanks largely to persistent efforts of the United States Government, Korea has substantially liberalized its markets and reduced its tariff rates on many products.

The United States efforts have also been instrumental in opening the service sector in Korea. Foreign banks are able to take deposits. Insurance and advertising sectors are open to United States participation and liberalization of interest rates will allow American companies to invest in Korean stocks in 4 years. Now, we are also able to sell American cigarettes, beef, wine, and movies in Korea. However, these accomplishments have not been without costs.

Now, let's look at what has been the net result of the United States efforts to achieve market access in Korea. First of all, we may have succeeded in opening the markets only to give opportunities to our competitors from Japan and Europe. To help with the surplus problem, the Korean Government has actively encouraged Korean businessmen to transfer import sources from Japan to the United States. The dramatic appreciation of yen also offered an additional incentive for Korean importers.

But in 1987, the Korean Traders Association polled over 280 Korean companies regarding United States-Japan competitiveness. In spite of the rising yen and government encouragements, Korean companies found that it was easier to deal with Japan. Why is that? They said United States prices were still 20 percent higher than Japanese counterparts, that it took, obviously, longer to deliver the goods. The U.S. companies were weak in after-sale service. There was a reluctance of U.S. suppliers to accept small orders and there was a lack of adequate information on available U.S. products and the procedures for ordering them.

Although the markets have been opened through the United States-Korea bilateral trade negotiations, the United States suppliers once again, lost out to Japanese and European competitors. We may have succeeded in opening the door, but we have not been successful in marketing our products. Second, through these efforts we have added fuel to a growing public perception in Korea that the market opening measures are being taken to accommodate United States pressures at the expense of domestic interests. With the rapid and sometimes chaotic process of democratization in Korea the voices calling for self-determination is gaining support among the middle class as well.

Blatant show of anti-American sentiments are no longer limited to radical student groups. The emergence of strong anti-American sentiments as evidenced by bombing attacks on U.S. facilities and chanting of anti-American slogans during demonstrations, has had negative impact on the sale of U.S. products and will undoubtedly effect the future tone of bilateral trade relations between the two nations. The public outcry against the market liberalization for American cigarettes is a case in point. It was a public relations disaster in view of the fact that there is an expanding campaign in the United States to restrict smoking in public places and the fact that it is also harmful to your health. Strong pressures by the U.S.T.R. may have been successful in opening markets to American cigarettes, but unfortunately, we have created the image of the United States as a bully and worse still, we have failed to capture the expected market share.

In sum, we may have won the battles for market access for cigarettes but we may have lost a war in the actual sale of our products. Having said all this, what can we do to better develop Korean markets in the best interests of both sides? First of all, I believe that the U.S. business community must adopt a different attitude toward foreign markets. We must approach the Korean market from a competitive, practical point of view and begin to determine what Korean market needs, not what we're producing on our farms or in our factories. We have to think about new strategies which involve investments and product design and packaging, better promotion and consumer education, and a greater knowledge of distribution systems and consumer tastes.

The questions of fair and free trade ultimately may not be as important as the ability to understand what foreign markets can really take, what they really want and need, and how to get the products there. I believe that true market access may not be achieved by lobbying for new trade laws but by designing products to serve the marketplace. We also need to approach the Korean market from a longer range perspective. It is often said that in the West, we become friends after a business while in the East, we become friends first and then to a business deal.

Too often, American businessmen are discouraged or frustrated because they cannot complete a deal within a short time. Hence, it is important to make a long-term commitment to the marketplace and to understand the ways of doing business in Korea, moreover, when you do develop a better understanding of cultural and social customs which determine consumer behavior. There are many examples of costly mistakes which American companies have made in Asia due to the lack of clear understanding of consumer behavior and purchasing patterns.

For example, American financial services were targeted mostly to men, not realizing that often the women control the household finances in Asia. American diamond retailers marketed their products to young couples, not realizing that engagement rings were bought often by mothers. American refrigerators were too big for small-sized kitchens, just to name a few.

We must also adopt a more open attitude toward government and industry cooperation. As Korea begins to trade with China, Russia and other Eastern bloc countries, the United States suppliers will face stiff competition for the market share. And Mr. Victor Li just mentioned, the days when "made in America" label alone could sell the product are over. The United States product must compete with the Japanese and European products in terms of product quality and design.

Hence, the various government agencies should work together with the private sector companies to identify effective tools of marketing American products. The government should assist in educating the foreign consumers about American products and their usage to increase general consumer awareness and demand. I also agree with the previous speakers, that the government should further strengthen our educational standards to maintain our competitive edge. We need to emphasize international education particularly foreign languages and cross-culture understanding.

In summary, I would like to say the United States should continue the current efforts to identify and eliminate unfair trade practices by keeping sight of the fact that our ultimate goal is to expand our market share in Korea. Examples of cigarettes show us that the adversarial approach has its own inherent limitations. It is more important than ever to choose our battles wisely. We must recognize the potential threat of a widespread anti-American sentiment and the need to become sensitive to issues which may trigger public resistance to the very product we are trying to sell.

I would like to close by saying that I feel very confident that the United States-Korea economic and political relations will still remain very close as we move into the 21st century. We will overcome the current obstacles and develop a stronger cooperative relationship. To compete on a global scale, we will develop new strategies and new skills that reflect the realities of the marketplace. To that end, we must reaffirm our vision and commitment to the future of United States-Korea relations and work closely together to build a longlasting and prosperous relationship. Thank you for the opportunity to share my thoughts with you today.

Senator **CRANSTON**. Thank you very, very much, Diana. Now, we will hear from Prof. Chalmers Johnson of the University of California at San Diego Graduate School of International Relations and Pacific Studies. I want to compliment you on that program down there. I know it is a very, very fine and widely respected one.

STATEMENT OF PROF. CHALMERS JOHNSON, UCSD GRADUATE SCHOOL OF INTERNATIONAL RELATIONS AND PACIFIC STUDIES

Mr. **JOHNSON**. Thank you, Senator. I am glad to hear you say so. You have been helpful yourself in publicizing it. I also would like to thank you for bringing these hearings together. I think they are extremely important. The year 1988 may well go down as the year in which Japan replaced the U.S.S.R. as the most important problem for American foreign policy. Without question, the recent death of the Showa emperor was the end of an era for Japan. Retrospectives, obituaries, and documentaries lay to rest not only him, but also the image of Japan as a war-stricken defeated country.

Japan now stands revealed for what it is today, the world's richest big nation in terms of per capita income, the major source of long-term capital on earth today, the financier of America's budgetary and trade deficits and the leader in many new areas of technology such as telecommunications, semiconductors, robotics, nuclear power generation, and new materials.

The death of the emperor should also be something of a milestone for the United States, but we are not at all sure that it will be seen as such. This year we will witness the 21st anniversary of America's bilateral trade deficits with Japan, deficits that are now so large, they are bigger than the gross national products of virtually every other country in the Pacific. The United States today is defending a nation to which it is simultaneously going deeply into debt. It is possible that many in Japan will come to believe that the new era of Heisei—the creation of peace—is one in which Japan should rearm and begin to exercise political and military influence somewhat more commensurate with its economic superpower status. It is by no means certain that this will happen, but there are influential people in Japan calling for changes along these lines and Paul Kennedy's best seller about the rise and decline of nations seems to have convinced many Japanese that the United States is a spent force.

My point is that whatever figures or people you want to quote, whether you want to view the United States as being in decline or simply Japan as being in the ascendancy, the situation that exists today between Japan and the United States is profoundly unstable. It literally cannot continue much longer. Serious efforts to end American budget deficits must mean reducing defense expenditures which, in turn, will require a new division of labor in the defense of the Pacific region.

In a sort of catch-22, a refusal to cut defense expenditures will lead to another stock market collapse that will then force Americans to come to grips with their problem. Some incidents in the Pacific can also easily make the changing relations between the United States and Japan manifest, such as rising anti-Americanism in Korea, a refusal of the Philippines to renegotiate the bases agreement in the 1991, renewed friendly relations between China and the U.S.S.R.—which now seems likely.

All of you know these things, and even though it has probably not fully sunk in, you know that something has got to be done about them. The United States enters the 1990's in a strange position compared to the 1980's. The national debt is almost $3 trillion. We are beset by large deficits, $155 billion; huge trade imbalances, $130 billion; and threatened by a seemingly intractable Third World debt totaling over $1.2 trillion. The combination is a volatile one. During the election campaign it was not treated with the special urgency it seems to deserve and the campaign offered few clues to the Bush administration's solutions. That is to say, we have serious problems but we do not seem to know what ought to be done about them, because the solutions are so divisive that no politician can mobilize the political backing to confront the problems.

The entire debate is caught up with many different shibboleths and appeals to short-term advantage—"read my lips," avoid protectionism, do not become known as a Japan basher, spend more on education and research even though there isn't any money to spend, and so forth. Incidentally, the Japanese are caught in the same bind. They also have serious problems—defense issues, land prices, continued protectionism of their farm sector, even whaling—that they need to address, but to do so would create much political instability for the party in power, the Liberal Democratic Party—LPD.

I think I know what the United States should do to come to grips with the challenge of Japan and of its several emulators in the Pacific, including, belatedly, mainland China. But I increasingly recognize that nothing is going to be done because conceptually and intellectually we are deeply divided over the explanations and significance of these developments.

Let me make myself absolutely clear. There is no intellectual agreement within the research community about why Japan has grown as fast as it has, about what should be the response of nations that must live with Japan and this rapid growth, or the lessons, if any, from these modern manifestations of capitalism in the Pacific. I believe that the inability of the American political leadership to confront the challenge of the Pacific and to develop appropriate responses in part reflects this intellectual chaos backstage. English-speaking social science offers so many contradictory explanations or none at all for the phenomenon of Pacific dynamism that the politicians merely temporize until an intellectual consensus emerges. This is the challenge facing American universities. Right now, they are as much a part of the problem as they may offer solutions. Among the things standing in the way of an effective American response to the Pacific era are intellectual vested interests in the status quo. Let me merely illustrate a couple of them.

In 1985 when the American trade deficit was starting to enter the crisis stage, professional research economists declared that what was wrong was currency misalignment. The U.S. dollar was said to be overvalued. Dr. C. Fred Bergsten, head of the Institute for International Economics in Washington, DC, and a regular testifier before Congress on economic issues, declared that the bilateral trade deficit between Japan and the United States would be corrected if the dollar were devalued against the yen to the level of 190 yen to the dollar.

This was done and you and I will probably never again see 190 to the dollar. We went past it very fast. The yen was, in fact, upvalued from about 250 yen to the dollar to the current exchange rate in the 120's to the dollar. This was done in accordance with perfectly good macroeconomic theory, but it proved to be a practical disaster for the United States. It did not seriously effect America's trade deficit with Japan, as Victor Li just pointed out. Instead it has gotten steadily worse as the high yen forced Japanese industries to become hyperefficient. It also made American real estate and other assets very cheap for Japanese buyers, and the pass-through effects of cheaper prices for American goods in Japan were blunted by the Japanese distribution system, trading companies, and other practices intended to give Japanese firms time to compete with foreign products.

The problem is not, as the economists would have you believe, the international market. The problem is Japan. At the same time that American economists were advising the United States Government that the problem was macroeconomic currency misalignment, the former head of the Bank of Japan, Mr. Haruo Maekawa was writing a report for his government on what Japanese specialists thought was the causes of the imbalance. He mentioned currency misalignments but placed them much lower than the need structurally to stimulate demand within Japan.

By this he meant a new land use law and the servicing of Japan's pent up need for better housing. Vested interests within Japan denounced the Maekawa report. Its main provisions remain unfulfilled. And the American Government did not press to have it implemented because its own pundit did not understand it. But this was the more accurate, penetrating analysis.

Other American vested interests have attacked the notion that Japan is a capitalist developmental state, that is to say, a state with a different kind of capitalism, because this threatens neoclassical economics which is actually an elaborate brief for laissez faire. By capitalist developmental state, I mean Japan's invention of new institutions to combine private ownership of property with state goalsetting. The state operates not by displacing the market, as under socialism, but by becoming a player in the market—creating incentives, supplying capital information, lowering risks for approved activities, providing protection from foreign competitors, encouraging competition in strategic industries, and facilitating changes of industrial structure that the state deems desirable.

Japan's real contribution has been made in innovating the institutions of modern capitalism—such things as raising the savings rate, using the banking system rather than a capital market to move savings to industry, promoting cooperative relations between labor and management, and restricting organized labor's contribution to society to enterprise unionism, thereby making effective government guidance of the economy possible.

My main point, then, is that the United States response to the challenge of Japan has been inadequate intellectually which, in my opinion, is the prime reason why our practical policies for dealing with Japan have also proven to be inadequate. Needless to say, Japanese themselves have not been eager to help clarify matters for us since American myopia serves Japanese economic interests. Young Americans are ahead of the establishment on this issue. They seem more ready to see the Pacific in terms of new institutions of capitalism. To the extent that adjustment has occurred in American institutions to deal with the problems of Japan, it has often been the result of pressures from below, not farsighted leadership from above.

What should we do, even though it means clashing with the high priests of the old agenda? Senator Cranston, in calling these hearings, asked people to try to be precise, so I came up with five things. Here's my list.

First, we should recognize that the problem is not one of protectionism or some other issue defined in terms of traditional economic doctrine. It is rather the problem of Japan. The issue for us is to learn to live with and make proper adjustments to a superrich, but politically very cautious and insecure Japan. This issue is not all of the Pacific or Korea or Taiwan or the GATT—which is close to moribund anyway, and should either be renegotiated or abandoned—but rather Japan, which poses a problem comparable to that of Germany before World War I and between the two wars. Just to make my point here, it seems to me that for the last 21 years we have dealt with Japan by putting pressure on it to become more like us. It would now be wise to try a different tack and that is for us to seriously learn a little bit from Japan.

Second, we should enact a foreign investors' disclosure law in order to know what is happening in the area of foreign direct investment in this country. The United States is the easiest place on earth for foreigners to acquire assets. The Japanese often accuse us of not working very hard at international trade, yet one does not have to work very hard to succeed in the United States.

It is absurd that we discuss these matters, such as real estate speculation in Hawaii, Fujitsu's proposed acquisition of Fairchild semiconductors, and so forth, without any serious base of information on the scope and velocity of investment. This issue is also an area where we might insist on elementary reciprocity. We could and should license and supervise Japanese investment to the extent that the Japanese Government licenses and supervises American investment. In my opinion, we will never achieve a GATT agreement on services, but if we do not demand reciprocity in, for example, banking, we could end up with the largest American banks being foreign owned and controlled.

Third, we should create an American DITI or Department of International Trade and Industry. Such a new bureaucracy might combine parts of the Department of Commerce, Energy, Transportation, the Office of the U.S. Trade Representative, the Export-Import Bank, NASA, the Patent Office, the National Science Foundation and the Office of Science and Technology Policy, the Defense Advanced Research Projects Agency, and the Defense Science Board.

Such a combination would recognize that we spend over 50 percent of our R&D budget on military research, whereas Japan's research budget, which is virtually the same size as ours even though Japan has only half the population, is entirely devoted to civilian, commercially oriented projects. As part of this reorganization and as Congressman Levine just said and I strongly support, the Secretaries of DITI plus those for Treasury, Commerce, and the Special Trade Representative—if the last two still exist after reorganization—should be put on the National Security Council. This would acknowledge that one of the major lessons of the 1980's is that security depends as much on good domestic industrial health, as it does on weapons procurement and military salaries.

Fourth, the United States should get back into consumer electronics including high-definition television—HDTV—and fax machines, which will ultimately replace the telephone in every household, as they already have in places such as Hong Kong. If such products are left to market developments then one can be certain that the United States will continue to decline vis-a-vis Japan. The industries of the future are well-known: microelectronics, new materials, biotechnology, telecommunications, advanced aircraft, and computers. It is not, and never has been, a matter of picking winners, as the economic ideologs like to argue. It is a matter of the Japanese Government providing affirmative action for its enterprises in these fields, much as the National Science Foundation in the United States does not pick the sciences of the future but supports those that the scientists deem promising. The winners have already been identified. The issue now is whether any of these industries will have Americans working in them.

Fifth and finally, we must start building incentives into our economic system that will promote savings and give managers a longer term perspective. This is the point, of course, that Senator Cranston raised in his opening remarks. This would mean, among other things, ending the tax benefits that make leveraged buyouts possible, curtailing home equity loans by refusing to give tax benefits to the interest payments on such loans—and this is not the same thing as tax benefits on mortgages, which promotes home ownership—ending the taxes on dividends and interest, thereby promoting savings, and similar innovations that are routine in Japan and that do work.

I think that I will end my comments there. Basically, it seems to me that we must recognize in the issue of culture raised by Victor

Li, that the Japanese view of international relations is very different than that of either Western nations or the Chinese, something that foreigners tend to ignore in dealing with Japan. If Westerners believe in the balance of power and the doctrine of sovereign equality among nations and the Chinese believe in treating all barbarians alike or using one barbarian to defeat another, the Japanese believe—in the words of their old adage—"move with the powerful, yield to the powerful, adjust to the demands of the powerful."

These ideas are very old in Japan and they are not changed by Americans who know nothing of East Asia talking about trans-Pacific partnerships, burdensharing, and similar Western ideas. General MacArthur, it seems to me, understood this very well, and it was one of the reasons why the allied occupation of Japan was as successful as it was. An America really in decline will be treated by Japan with contempt, just as a powerful America is one with whom the Japanese want to do business.

Thank you very much.

Senator **Cranston**. Thank you for very provocative testimony, very, very interesting. I suspect that your testimony may provide a lot of red meat for the discussion that we will have back and forth after we are through with the testimony.

We will now hear from Maria Hsia, a community activist, representing the Pacific Leadership Group. Maria is a woman who has emerged very suddenly as a very great force in the Asian community in California and is leading the people of that heritage into the mainstream of political and social action and economic action in our State. We welcome you very much to this hearing.

STATEMENT OF MS. MARIA HSIA, COMMUNITY ACTIVIST, PACIFIC LEADERSHIP GROUP

Ms. **Hsia**. Good morning. First I would like to thank and commend Senator Alan Cranston for holding these hearings. I also welcome Congressman Mel Levine's participation and I especially thank Lt. Gov. Leo McCarthy who many in the Asian-American communities see as a leader who has developed an excellent understanding of and sensitivity to the complex relationship between the Asian-Americans in the United States and the problems in the Asian countries overseas.

Being a leader of the free nations, being the most prosperous country around the world, and being a country with a generally generous immigration policies, for years, the United States has become a safe haven for those who suffer political oppression and economic poverty in their own home country. We Asian-Americans are proud of the fact that we let the rest of the world share our freedom, our profitable market, and our scientific knowledge. We're very proud that the United States has even extended our protective umbrella abroad to those countries in need.

We can feel the regional political and economic changes by the flowing trends of immigrants and capitalists to our country. After World War II, the United States helped Japan to rebuild. After the Vietnam war, we accepted hundreds of thousands of Vietnamese refugees made homeless by this country's involvement. After Taiwan was expelled from the United Nations in 1972, and after the establishment of diplomatic relations with China in 1978, millions of U.S. dollars together with thousands of immigrants flowed from Taiwan to the United States. In one case, our involvement due to an industrialized nation competitive our own Nation. In another case, we created hundred of thousands refugees.

Yet, times have changed. When we look over the political and economic map of Asia today, we see many fundamental changes. The Chinese opened their arms to the Western world in order to get assistance to develop their country thus resulting in radical changes to their Communist ideology and practices. The North and South Korean Governments have opened negotiations to settle their differences and recently the Hyundai Co. has even announced that it has signed an agreement with a North Korean treasure bank for a joint land development project. And the long-time tension between Taiwan and China has changed radically during the past 3 years resulting in a $2.4 billion trade between China and Taiwan in 1988, a 17-percent increase compared with 1987.

This changed political and economic picture of the Asian countries and forecasts a more stable and friendlier Asia to us and will lead to dramatic changes in the Asian-American community in our country. Take Taiwan as an example. During the past 4 years, due to the devaluation of the U.S. dollar against a new Taiwanese dollar, and the gradually more stable political situation, a large number of Taiwanese export companies stopped doing business with the United States. It has not become as practical to sell to the United States and this trend will continue. Due to the changed political and economic situation in the Asia Pacific area, the flow of people and capital from there will no longer be a one-way street. It will be a two-way exchange. The Asian money coming to our country will no longer only be coming to seek a safe haven but to seek profit.

People from the area will no longer just seek a house of political refuge but to seek expanded opportunities. And the immigrants and long-time residents of this country will seek economic opportunities back in the Asian countries. Here comes the challenge. We're very happy to see politically more stable and economically more prosperous Asian neighbors but, from a business point of view, we also encounter great challenge from those countries. We must not treat them like economic enemies with protectionism in our own mind.

We must meet this challenge with a more open and more broad-minded policy. If we can foresee this momentum and be well prepared for it, we will enjoy an economically and politically peaceful relationship with our Asian neighbors in the future. Economic conflicts will lead to regional disaster if we do not prepare for the change and challenge we will meeting in Asia, but we must approach this matter sensibly. Let us look at a couple of recent examples.

About 2 years ago, the United States was negotiating with Taiwan to export United States wines to that country, However, part of the package was that Taiwan must also permit the importation of tobacco products there. Now, in this country we're trying to discourage people from smoking. It does not look—make the United States look too good in the Asian community when this country forces countries in Asia to buy cigarettes as a means of balancing the trade deficit.

Or last year when Taiwan protested the importation of fruit alleged to contain harmful pesticides, Senator Pete Wilson immediately called upon President Reagan to urge strong retaliatory measures against Taiwan. If we ask our own citizens to boycott grapes sprayed with poison, how can we ask another country to buy them.

In our trade negotiations we must be sensible, fair and nondiscriminatory. Asian-Americans in this country do not want to see their brothers and sisters in their home countries subjected to oppressive tactics. Also at the same time, Asian-Americans fear that abusive actions will increase anti-Asian-American feelings in this country. A tragic example was the murder of Vincent Chin. Thank God the factory in St. Louis where Michael Dukakis spoke was European owned rather than Asian owned. But as the St. Louis factory illustrated, foreign investment in this country can also have a positive effect by saving a company from going bankrupt.

We cannot overgeneralize and assign stereotypes to Asian investors and trading companies. Most of the Asian businesses in southern California are owned by local immigrants and citizens. They can feel the effect of high real estate prices from overseas buyers, but at the same time, they also have the benefit of importing products which they sell here. The trade deficit and extent of foreign ownership are complex problems. We Asian-Americans believe that we can be a bridge between this country and our brother and sister abroad by our involvement. We can help prevent the appearance of racial bigotry and economic oppressiveness.

An example of this partnership is illustrated by the recent trip to Asia by our Lt. Gov. Leo McCarthy and Senator Al Gore. Only by going there can you see the human side of the balance sheet beyond the numbers of the trade deficit. By consultation with Asian-American leaders, we can structure import restrictions without appearing to be Asian bashing. We can encourage exports without appearing to be oppressive and we can monitor foreign investments without appearing discriminatory. This country has a right to defend itself, but as we demand fair treatment from other countries, let us not forget to treat them fairly as well. Thank you.

Senator CRANSTON. Thank you, Maria, for very welcome and very fascinating testimony which we appreciate deeply. One of our witnesses today, Prof. William Ouchi of the UCLA Graduate School of Management, unfortunately and unavoidably was unable to be with us today. We regret that because I know his contribution would have very fine. And so the final witness who will speak before we go to our discussion is Mike Choppin, president of the IDM Corp., a corporation that has been a leader in trade across the Pacific and a director of the World Trade Center. That World Trade Center that Mike inspired and created and constructed is also a very important entity in the realm that we are discussing.

Mike, I know you had some personal problems in being with us today and I deeply appreciate your coming. Thank you very much.

STATEMENT OF MIKE CHOPPIN, PRESIDENT, IDM CORP.; AND DIRECTOR, WORLD TRADE CENTER

Mr. CHOPPIN. Thank you, Senator, for inviting me, and I have been asked to focus on trends in trade and capital investments within the Pacific Basin. But I think whenever we talk about that subject either on a broader or narrower focus, we quickly come to trade deficit. And I'm going to speak to you today, not as a learned scholar speaking of theory, not as somebody who is elected to guide our Government, but a businessman who is actively dealing with the end results of all of these theories and policies that we've been hearing.

I am there, employing people, trying to survive and earn a living. I am not dealing with the theory. I am right there in the middle of it. So, with those thoughts and that perspective, I would like to talk about this issue of the trade deficit. And first of all, I would like to focus a couple of different viewpoints that are not often suggested.

It has been suggested many times and alluded to this morning that the trade deficit is Japan's problem. Well, I am sure they have a part of it. If they produce goods, they want to sell them to all willing buyers. With that idea, who forced our consumers to buy Sonys over RCA's? Who held a gun to the automobile buyer to buy a Toyota over a Chevrolet? The makers of the Sonys and those makers of those Toyotas wanted to produce a product and sell it as a profit. And isn't that the epitome of what we hold as the American way? Now, whether there are problems with our imports to Japan is another question. I will deal with that slightly at the end, in rules and confusing parts of different societies.

But, let us talk about that trade deficit. There is no trade deficit if we do not buy those goods. And I have never heard anybody suggest that any one of our consumers and citizens was forced to buy one Sony or one Toyota. So, if we decide that we are going to have free trade and a free society where the individual can choose to select one product brand over another—and I do not see how we could ever take that right away from our citizens, but if we choose to do that and if the American consumer in his wisdom or whatever motivates him to buy, chooses to buy Sonys, Toyotas, et cetera, then we have a problem to balance the flow of funds.

I do not think the question is just trade deficit. I think the larger issue is the flow of capital funds between the nations. And, if our televisions are sold in Japan, the issue is why are they so attractive here? Why are the Japanese televisions more attractive than the RCA's? I do not know all of those answers. I just know the results that they appear to be. Why, because people are freely buying them.

So, then we are presented with an issue of either trying to make our televisions attractive to the Japanese so they buy one if we buy one, or we must look at the problem in a different way, so we can balance the flow of funds between the nations. And I would suggest that first of all, the trade deficit does not completely monitor the whole issue. It does monitor certain goods that are listed and those goods that are listed are clear and evident and tracked probably quite accurately. But what about other things that are occurring where funds are flowing in the opposite direction?

And what do I mean? I mean specifically the thing that I have had a learned experience with and participated in for 5 years. My company, IDM, entered a joint venture with Kajima which is one of the oldest construction companies in Japan, to build a World Trade Center called the Greater Los Angeles World Trade Center and it is located in Long Beach. Why did I join with Kajima? Well, first of all, if we were going to have a World Trade Center, I had to have an international partner so that I could have an international outlook for the World Trade Center and I wanted one from the other side of the Pacific Rim and somebody from our main trading partner nation.

But then more specifically, Kajima facilitated funding for the development at 3 percent under the U.S. market. They did not personally provide it, but facilitated the funding from a consortium of Japanese banks dealing directly with their Japanese Tokyo offices, not through the California subsidiaries. And those funds probably were a recycling of some of the funds that we sent over there in buying their Sonys and Toyotas. And what was the results of all of that?

Well, we have a development that the first phase, which is now complete, cost in excess of $100 million. Now, how was that $100 million spent? It was 100-percent U.S. supplied and 100- percent U.S. employed. There is one Japanese man on the job in a second-level position. It was 100-percent U.S. unions and 100-percent U.S. supplied of all materials and supplies. I remember we had one discussion about whether the elevators should be a Japanese brand or Otis, which is an American brand. And we prevailed that it should be Otis because we thought that they had a larger and better established service network in the United States to service any problems that those elevators might have. And our partner agreed.

So, there is $100 million that isn't counted anywhere in the statistics of the trade deficit. Why? I do not know. I did not make up the list that we count. But construction projects are not counted. And the building industry of California has stated that a dollar in construction has a nine times ripple effect in the economy. If that be true, and I have no reason to doubt their research, then there is almost 1 billion dollars' worth of economic effect from that one first building. We are planning to build five buildings in this World Trade Center.

So, the cost will exceed $500 million and if you took this industry study created by the Building Industry Association of California, you would have then something in excess of $4 billion of economic impact by this one development, all employing U.S. workers, all purchasing U.S. supplies. It is not counted anywhere in the Government statistics on the trade deficit. So, I'm suggesting the trade deficit may not accurately portray the flow of funds between those nations and it may not be quite as dismal as the statistics suggest.

So, coming back to the original premise that our citizens are voluntarily buying Toyotas and Sonys and if they continue to voluntarily buy those, then we need to find a way to recycle those funds so we have a balance of funds between the nations. And I am participating in one of those things that are helping the trade deficit, even though it is not on the statistics. By joining with Kajima in building the World Trade Center, we are helping bring those funds back here.

Now, the question has been, "Well, do we like having a foreign company owning some of our real estate?" Well, the corporation has been here for 25 years, who I am dealing with, the domestic subsidiary of Kajima and that certainly has established them to be somewhat of a good neighbor over a period of time. But then the question would be, "Well, if we do not like that, do we still want to keep buying their Toyotas and Sonys?" We cannot have it both ways. If we are going to be a free economy and let people buy the goods that they choose, then we need to find means to help recycle those funds.

And there are a lot of other construction projects that I am personally aware of in California, some I am participating in, that have been facilitated by lower cost funds from Japan. Why does Japan have lower cost funds? Very simply, about 20 percent of their income is saved. We have about 5 or 6 percent in this Nation. I mean, are we going to pass a law that we should save more or are we going to suggest the Japanese pass a law that their people should not save as much? So, they have lower cost funds because of supply and demand, so much more funds flowing into those banks and also our funds that we send over there when we voluntarily purchased Toyotas and Sonys.

So, I am suggesting, in conclusion, that if we are going to allow our citizens that freedom of choice of purchase of consumer goods, then we need to facilitate the recycling of funds and put out the welcome mat for ventures such as the one I am participating in where those funds come back and create economic well-being and employment in our Nation.

Now, I know what I have addressed to you is not as broad as some of the theories that some of our learned academe presented today. I am giving a very real example that is happening today and occurring at this hour not too many miles from here. And there are many others. So, I would suggest before we get carried away with being hostile to some of the nations we are doing business, that we ought to think about how we can facilitate those recycling of funds. And when you get to the consumer goods issue, there are things that the Japanese would like to buy from us if we would choose to sell them that would amount to great amounts of money. The Japanese would love to buy Alaskan oil. We say, "No, we do not want to sell that."

And we have good reason. It is part of our strategic defense. But very simply, we could sell Alaskan oil to the Japanese and on a unit-by-unit basis buy a similar amount from Mexico. Mexican crude is a better quality average than Alaskan crude. And solve two problems at the same time. Help our trade balance with Japan and help a neighbor that we probably, one way or the other are going to be committed to help economically because of our long common border to the south.

So, I am not sure all of the problem is Japan. I think we also have to look to ourselves and I also think that we have to facilitate trade. One other slight viewpoint. I think we are a nation that is slowly coming out of isolationism. A lot of the senior leaders in

Government and business were raised in an era in this country when we thought we did not need anybody and we were king of the world and we may have been at that time. And these trends change slowly. We are dealing with nations in Europe and Japan that have been trading for a long time as a means of survival and we are just learning how to do this.

An example, recently I represented the city of Long Beach on an official capacity to Tsing Dao, which is our sister city, a major port city in China. And when I was there two things struck me. First, after the nice welcoming ceremonies, I was taken from one place to another and said, "Are you interested in this business, in that business, or the other business?" And the second thing I noticed, that even though there were a number of Western European nations there, a plywood mill from Finland, other things from other places, the United States presence was kind of lacking. I still think some of the time we are waiting for other people to show up here to buy the goods instead of going and calling on the customer.

And the other thing I have noticed, when the sister city group came here, we had the nice party. We gave them the keys to the city and that is all we did. We treated this as a social function. I know this occurred here in LA, and I know that has occurred in other cities. We did not say, "Well, what is it you would like to buy and we will set up all those meetings?" As a practical step, the World Trade Center and the World Trade Center Association is trying to fill that vacuum. And that vacuum does exist.

The city of LA was going to take a very simple project, put up our name—put up a sign in the Customs area at LAX that said, "If you are a foreign businessman traveling here and would like assistance, please call this number," a very simple thing. They could not find anybody's number to put up there, so the sign did not go up. We are sometimes in the business sector here and want to solve it ourselves and say we don't want the Government to help. So, to do our part, the World Trade Center is trying to fill that vacuum, so when a trade mission does come here, and has stated the purpose of coming here is to spend money, that we will try to find out—let the city official take care of those protocols and the appropriate parties, and we will try to do the practical side which is tended to be missing here of saying, "What would you like to buy and can we make arrangements for you with that industry?"

So, in summation, and maybe to repeat myself, if we are going to have a free society that allows our citizens to purchase whichever brand they choose, then let us facilitate the recycling of funds and count all of those recycling of funds such as major construction projects. Thank you, Senator for inviting me today.

Senator Cranston. Thank you for your very interesting testimony. It is very helpful to have your views from the practical world of business and trade in these deliberations and I thank you very, very much for being with us.

Who would like to start off by, I hope, expressing a viewpoint that may be contrary to a view expressed by someone else so we can start to get into different opinions to help us refine our thinking? I would like to recognize Lily Chin, the former mayor of Monterey Park, a community where so many Asian-Americans are now settling in southern California. She is also a Commissioner of the

California State World Trade Commission. I am delighted you are here, Lily, thank you.

Who would like to—yes, Mel?

Mr. LEVINE. Alan, let me start perhaps with a question for Professor Johnson and before doing that, let me also join you in saying that these—each of these witnesses have given superb testimony. This has been an extremely informative and stimulating hearing, and I sincerely appreciate having heard all of the testimony that was presented. I actually have questions for each of the witnesses, but the ones that sort of leapt out at me were regarding two areas of Professor Johnson's testimony. I raise these questions not to disagree, but to flush out some of the implications of his statements.

I could not help but reflect, and I frankly do not mean this in an entirely partisan fashion, but I could not help but reflect when I heard Professor Johnson say early in his testimony that the United States enters the 1990's in a strange position compared to the 1980's, with a national debt of almost $3 trillion, deficits of $155 billion, and trade imbalances of $130 billion, and that this is sadly and tragically perhaps one of the most lasting legacies of the Reagan era. This is something that has not yet adequately been underscored in terms of the frightening implications for our Nation and for the world if we are not able to address it in the near term.

I mentioned at a breakfast earlier that I had started a think tank recently entitled Rebuild America, dealing with American competitiveness, and Professor Johnson's fourth suggestion in the area of consumer electronics frankly looks like it could have been written by the people who I have been working with so closely in this area. We have been fighting very hard to promote what we have labeled, as I indicated in my testimony, an industry-led strategy to provide private-public partnerships in the industries of the future. And as you so well indicated, these key industries are well-known: microelectronics, new materials, biotechnology, et cetera.

I guess my most important comment is that I fully support your policy suggestions. In fact, you, I think, have summarized what we have called industry-led strategy. What I would be interested in hearing you analyze is in the absence of this type of Government assistance with regard to private-public partnerships, when for example, companies such as the one that Mr. Choppin was talking about cannot get adequate low-cost, long-term capital in this country in order to invest for the long term, what will happen to American competitiveness in the industries of the future if we do not pursue the suggestions that are incorporated in the context of your fourth recommendation in consumer electronics?

Mr. JOHNSON. Congressman Levine, to answer that question fully would obviously take a great deal of time, but let me try to be as succinct as possible. Government today is invariably and unavoidably a player in the economy. Any agency that controls 25 percent of the gross assets in the economy has a major effect. Thus the question is, how does it perform?

It seems to me that, indeed, the points made by Mr. Choppin about freedom are particularly important as we look at something like the construction industry. Japan is very good and very capable and does a lot of things. But they nod. The airport for Tokyo must be, without question, one of the most inconvenient, poorly designed, and more like an armed camp than the airport of any advanced industrial democracy.

We know a lot about building airports in this country. We have built a lot of airports and we have built a lot of them abroad. The biggest public works construction projects on earth over the next 15 years are in the Pacific. They are all run by Japanese public corporations. Thus we are not now talking about private citizens. And precisely because of this we need an equivalent, in order to compete.

Take the savings rate. Mr. Choppin suggested that the Japanese simply save a lot. The Japanese savings rate in 1930 was about what it is in the United States today, about 5 percent. Households consumed all their income. Today the saving rate in Japan is the highest ever recorded for a capitalist economy in peace time. It is in the neighborhood of 16 to 19 percent. Why is that so? I think it is because the government offers fantastic incentives for people to save. For example, the interest on the first $75,000 in an individual's postal savings account is tax exempt. It is also made extremely easy and attractive for people to save at their post offices. By law, nobody can pay a higher rate of interest to a small saver than the post offices. This produces, in the hands of the Japanese Government, the world's largest bank, the Yubin Chokin—the postal savings system—which is about four times the size of Citicorp. Therefore, I do not think it is a matter of doubt anymore that Japan has demonstrated, contrary to our theory, the government can be an active and effective partner in economic development.

Moreover, the Japanese go out of their way to say these are not really Japanese ideas. These are things they learned from abroad, often from us, and adapted. The postal savings system was discovered by Matsukata Masayoshi on his visit to Europe at the end of the 19th century. The leading prize for quality control in Japan is named after W.E. Deming who still, at age 90, lives in Grosse Pointe, MI, commenting on which auto industry listened to him and which one did not.

So, it seems to me that Japan has demonstrated to us that some of their institutions travel very well. They also do a very effective job in America with American labor. But the big issue, it seems to me, is that with a market half as big as our own and the second largest market on earth, we should be having—particularly after we've lowered our prices by 60 percent—a much larger share of the Japanese market than we actually do.

Senator Cranston. Any other—Victor.

Mr. Li. I think Professor Johnson really does a great service in pointing to the problem of Japan. What he says is certainly true, but I think we should not lose sight of the other side of the coin: To cite that great philosopher, Pogo, "We have met the enemy and they are us." There is—when you come down to what it is that we need to do, as opposed to an analysis of the problem, much of what needs to be done I think cited by all of the speakers are things that we need to do in this country.

Part of the intellectual chaos in trying to figure out what is happening in Japan is that we bring to the task a Western mind-set that is too narrow. If our economic thinking revolves around Adam Smith, then we are surprised that Asian governments get very much involved in business. And yet in Asia, perhaps with the exception of Hong Kong, governments are involved in the market up to their eyebrows.

I think that the intellectual chaos strikes us particularly hard as we try to rethink strategic policy, because in this area we have to understand the causes of problems and the directions of change. But with respect to private business and to the long-term educational base we must establish we know fairly well what to do and how to proceed.

Mr. JOHNSON. Can I just add a word on education, because I think Victor Li is raising an extremely important point there. You can buy anywhere on earth in English. What you cannot always do is sell in English. If you are trying to sell something, you have to speak people's language to them. It seems to me the academic world has been enormously slow in coming to grips with the intellectual dimension of this challenge.

We are also in danger in America today of not being able to manufacture the things we invent. Our labor force often does not have the skills for the kind of high value-added manufacturing that is occurring in Japan and Korea and places of this sort. It is well known that Silicon Valley runs very, very comfortably using Vietnamese immigrant labor, and that to a certain extent the degree to which we are competitive in semiconductors may be a product of our losing the Vietnam war. Otherwise, we would probably be manufacturing this stuff in Singapore or Taiwan or Hong Kong or trying to open a plant in Thailand or Malaysia.

So, these are not issues of slight importance. Our inabilities in mathematics and other fields are the result of an educational asymmetry between ourselves and Japan. Japan does a very good job in required compulsory education, but everyone who has ever worked at a Japanese university knows they are not very good at that level. By contrast, we do a largely rotten job at compulsory education and then we catch up very fast in our universities, so much so that foreigners come here to go to our universities. These are issues that are right at the very center of public policy. To come back to Congressman Levine's point, it seems to me there are no private sector solutions right now.

Mr. LEVINE. Can I just pursue with you, Professor Johnson, in the context of your answer to my question and one of your responses to Mr. Li, what is your view of the best way of achieving market openings in Asia, particularly when the barriers are more systemic and cultural than they are explicit and overt? Should U.S. negotiators demand a certain percentage market share if the United States has a clear comparative advantage in a product or should negotiations be as comprehensive as possible? Should they be sector-specific? Should they be product or problem specific? How should we be going about trying to accomplish the goals that you are outlining that we need to be seeking, I think everybody agrees we need to be seeking? But how do we get there?

Mr. JOHNSON. My answer on that, and I will try to be succinct about it, would be to say that we have for far too long attempted to make Asian countries perform according to our theory of how our economy performs. The only really effective strategy today, is to genuinely start learning from East Asia and adopting Japanese rules. We find this happening in many places already, for example in the privatization of research that is going ahead. Major corporate benefactors to American universities for engineering and things of this sort now say to us, "Don't admit Japanese." And we say, "We cannot do that because of academic freedom."

And their answer to us is, "We are shifting to Japanese rules. They don't allow us into their research institutes; we shouldn't allow them into our public institutions, which is where we do research."

So my answer would be Japan always knows better than any foreigner negotiator how to open the economy if they want it opened. The pressure has to be consistent and meaningful. Japan is fully capable of changing its distribution system, could do it easily, if the pressure were there to do so.

Senator CRANSTON. Mike.

Mr. CHOPPIN. I think it is very typical of our American impatient personality to want a quick fix. And sometimes taking that approach is OK, but it may not be the solution. The Japanese businessmen that are effectively operating here did not suddenly decide to learn English 2 years ago. They have made, as a trading nation, a commitment to that enterprise over many decades.

An example that came to my attention, I was taking a flight to Japan and I happened to pick up a Varig airliner. That is the national flight carrier for Brazil. And I sat next to a gentleman who was already on the flight coming from Brazil. And he was a Japanese gentleman, never been assigned to an English-speaking nation, and yet he spoke English as well as I did. He told me that he had been assigned to Brazil. When he first joined the bank, they sent him to Brazil. Now, bear in mind this is just after the Second World War. They are just clearing away the ashes of defeat and they are already reaching out to establish business ties overseas.

So, this gentleman was sent to Brazil. And then when he got there, after a very few weeks, he was sent to a city where there were no Japanese-speaking people. And he learned to speak Brazilian very well, because out of necessity, he either learned to speak it or he was not going to feed himself. And he was cycled back to Japan and he has come back and so forth. And now he is the head of the Brazilian activity for the Bank of Tokyo. He speaks that language like a native. He has many contacts in that nation and his success today was the seeds planted 40 years ago.

Now, I use Brazil because I am not talking about English. I am using that to emphasize it. And besides that, he spoke English very fluently in explaining all this to me. So, yes, I think our educational system has been deficient. We are now only waking up to the idea that maybe we should emphasize a lot of aspects of internationalism, geography, languages, and so forth. We are doing it now, but I think those results will show up 5, 10, or 20 years from now when those young people that are studying it, are in positions of power.

But I think some of the Japanese success is not because they demanded a market share in the United States. It is because they asked people to learn English 25 years ago and came here and studied and learned. Almost every successful Japanese company, when they first came here, lost money for 8 or 9 years. It took them awhile to learn the turf. And so I think that instead of pointing fingers or demanding market share—are we going to hold a gun to someone's head and say, "You must buy our televisions"? I think if we produce a competitive product, people will buy them. And we have to, first of all, start here in this country.

And I think the educational process of orienting our people from early years—I happen to have been born in England, and in the first grade, I was studying French and worldwide geography, because England, similar to our other trading nations, has had that international outlook for many centuries. I think we are heading in that direction. But that is what I meant when I said we are coming out of isolationism. You do not suddenly turn the switch one day. It takes a period of time and takes a number of decades to fully accomplish this, to realize that we are part of a world economy and we do not dictate that world economy. We are part of it. And so I think these changes will come. I think we will make progress but there is the fear of being too impatient and overreacting because we want the solution by tomorrow morning at 8 o'clock.

Senator CRANSTON. Leo.

Lieutenant Governor MCCARTHY. Several people have addressed the importance educating our young people in the language and history and culture of other nations, I among them, but the driving connection has to be that the corporate world in America must believe enough in overseas investment to send those young people that are so educated to be stationed there. If young college students think there is very little opportunity, that they can, after going through the discipline and hard study of acquiring that language skill and that knowledge, if they then do not think it is going to have any commercial use, they must go through that kind of curriculum because they want to teach in university or there is some other specific reason for doing it.

Until we make that connection between corporate use of students so educated and the educational process, it is not really going to stimulate what happens.

Senator CRANSTON. Chalmers, you ask to be recognized. Could I ask you to comment on one point, in the course of your remarks? You said that Japan fosters a great deal of competition without any reliance on antitrust laws. Would you explain briefly how they do that?

Mr. JOHNSON. Yes. But, first of all, I just wanted to come back to the point that Lieutenant Governor McCarthy was making. I have after 26 years at Berkeley moved to this new Graduate School of International Relations and Pacific Studies at the University of California's San Diego campus. This is something we must give the State of California credit for—a new school of international relations on the Pacific coast. The State is paying for 35 faculty members and an $8 million building. Now, that is big investment in this day and age to try and come to grips with the challenge of the Pacific.

I believe one of our problems will be the placement of our young graduates. The typical business concern in America today, in dealing with East Asia, wants to take someone who is already at middle management, who knows the business, and teach him East Asia. Well, as someone who has been studying Chinese and Japanese since the Korean war years, I can assure you by the time you are 35 it is almost too late. The problem with language study is that motivation and capability do not coincide. You are most capable when you are about 12 years old. You get motivated about the time you are starting to lose your ability to do it.

One of our problems is that we have to push back language training to the younger years. However, what we are actually seeing in America today is students are coming to the conclusion on their own. The young people are ahead of the establishment in this regard. They know that the future is in the Pacific and they are doing the language as undergraduates. Then they do graduate work in business, or law, or policy studies, and yet they have trouble getting jobs commensurate with their skills. There are some exceptions, some elements of the banking community, but generally speaking, I think American businesses have never fully appreciated the kinds of skills they need in the board room and still do not have. Tokyo today is filled full of very well educated young Americans who speak good Japanese who are eking out livings writing newsletters and things of this sort, when they should be working for big American corporations.

On the question of competition in Japan, it seems to me here that we have to go back to the historic origins of modern Japanese industrialization. Industrialization did not occur in Japan for economic reasons. It was sponsored by the State for purposes of creating the foundations through which Japan could defend itself against Western imperialism at the end of the 19th century. This has produced in Japan a remarkable dual economy of big business in the strategic sectors—very much like the military industrial complex in the United States, the world of Zaibatsu—as against a huge subcontracting medium-to-small business sector that is cutthroat in its competition. Generally speaking, when we talk about competition in Japan, we are talking about this medium-to-small sector, and the failure rate of small businesses is huge. Sumitomo Bank could not fail. The government would ensure that it did not.

It seems to me that one of Japan's great modern inventions is a new form of industrial, conglomerate organization that basically combines in a single group, many divergent industries joined together by a bank and a trading company. Since there is more than one of these groups, they also compete with each other, and that basically has the effect of blanking out the international business cycle. That is to say—the Japanese have done it twice to us now in the realm of semiconductors. As we go into a semiconductor down cycle of demand, the U.S. firms lay off labor and quit doing research and development; and then 2 years later, as demand for semiconductors comes back, there are the Japanese with the product cheaper and more advanced. They have continued to innovate right through the down cycle.

And how can they do it? They do it partly by risksharing within the developmental organization. I have been asked a hundred times to calculate the competitiveness of Hitachi semiconductors and I have always said, even if I had the data and were willing to expend two diopters on my eyes reading it, you have asked the wrong question, because Hitachi does not care whether their semiconductors are profitable. The semiconductors being carried by sales of big electrical machinery and other such things because it is a business of the future.

But it does seem to me necessary, once again, to say these are not monopolists, and that when we talk about these great conglomerate organizations—Hitachi; Toshiba; Toyota, which is virtually a bank, with 4 billion dollars' worth of assets; Mitsui; Sumitomo; Mitsubishi—there are more than one of them. They do compete with each other.

Mr. LEVINE. Could I just follow up on that for 1 minute. I think you have put your finger on an extraordinarily critical competitiveness problem between us and the Japanese internationally which has some disturbing ramifications in terms of its potential implications for our ability to have a competitive set of industries domestically. I wonder whether it makes sense to be drawing some antitrust distinctions between the domestic market and the international market, when we have the kind of competition which, derived from the structure of the Japanese marketplace, does not provide a level playing field.

But if we were to relax antitrust restrictions to improve our international competitiveness, won't we resist all of the difficulties which created the antitrust laws in the first place? Is there an international versus a domestic distinction here? And how do we make sure that we put our international competitiveness in the industries of the future on a level playing field without at the same time, eroding all of the antitrust concerns which I certainly believe remain legitimate?

Mr. JOHNSON. Well, Congressman, you know, this is why I do not like your phrase "industry-led strategy." I think that we are not talking about industry-led strategy. We are talking about industrial policy, and I am basically making the argument that industrial policy today is the third side of a triangle of the government economic policies. No one doubts that governments have fiscal policies and that they have monetary policies. Both of these work primarily on the demand side by altering or effecting demand. Industrial policy works on the supply side.

And this comes back to a point made by Mr. Choppin where I seem to differ with him, but I really do not. Market economies work in democracies and the costs of changing industrial structure, say from labor-intensive industries to capital-intensive industries to knowledge-intensive industries, are so enormous that people will use their political power to prevent these changes occurring. This being the case, it becomes a governmental responsibility to make the adjustments.

To me, the most devastating comment you will hear from Japanese visitors to America today is, "We would never have allowed what happened to Youngstown, OH, to have happened to a Japanese city. We would have never have simply said to the people of Youngstown, 'You're out of work, get in the car and drive to Houston.'" Industrial policy means not only planning for the future and competing effectively abroad. It also means helping to scale down and redirect those industries that cannot effectively compete.

We do not want protectionism. Protectionism does not work and it would be counterproductive even in the national security area, where we know, for example that we must retain a machine tool industry. We do not want to protect our machine tool industry because we need to have a competitive one. Therefore, what we need is an industrial policy in which we can manipulate the incentives, lower the costs of going into business, reduce risks, provide information, the sort of thing that the Ministry of International Trade and Industry does routinely in Japan.

I mean, Sematech or MCC Corp. are recent achievements by the American Government. They would be regarded as pimples by the Japanese Government, which creates one of those a week.

Senator **Cranston**. I ask Diana, do you have anything you want to express on what you have heard?

Ms. **Kang**. I think today I have learned a lot. I would like to stress that in developing a trade policy against the Pacific Rim, it only works also if you have specific strategies for each marketplace. I think that a lot of times American business community and the Government see the Pacific Rim as one entity. It is important to know that we are very different from each other. Japan is different from Korea. Korea is different from the Philippines, from Hong Kong and Taiwan. And, it tends to be the mistake of the American business people that when they see an Asian person, they automatically assume that we behave and think the same way. And that has been very costly for the American business sector as well.

Senator **Cranston**. Thank you very much. Victor, do you have any comments?

Mr. **Li**. Yes, sir. I also think we do need an industrial policy and to take a series of other immediate steps, but let me try to put that in a little different context. I think we are going through a real sea change in our national life with the coming of the Pacific era.

At the beginning of this sea change, nothing fits. It is true that we cannot get our students placed despite all of the talk about the need for language competence. It is also true that Secretary of Commerce Verity commented that after he finally got the Japanese to allow American construction companies to bid on the new airport project, one made a bid. To get at this problem, I think we must get at the causes rather than the immediate symptoms—and we do have to deal with the symptoms.

I have talked to many companies that say, "I know that in the 21st century my company must be in Asia in a big way. But we are not there now. The skills that got my company to this point do not take us to the next step—the Pacific. What do we do?" The realization is there in the business community.

What is it that this country will do to get us ready as fast as possible? A number of attitudinal changes must be brought. One is that American businesses must think seriously about doing business abroad so that, among other things, our construction companies will bid for airport contracts. Another concerns foreign language study in early grades when children are most able to learn. Many educators have the attitude that "It is hard enough to teach arithmetic and English; now you want us to teach French and Japanese." The attitude is almost that foreign language study uses up a portion of your brain, so you do not have it available for something else. But it may be that the learning of another language stretches one's brain, so that English and arithmetic are better learned.

It is these attitudinal changes we have to bring about in our society. And it is in that context that we can deal with the specific symptoms through an industrial policy, the establishment of intermediaries such as trading companies that can handle medium and small enterprises in doing business abroad. But even as we do these short-term things, we still need the leadership to tackle the long-term issues, such as education, where the payoff is not right away.

Senator CRANSTON. Thank you very much. May I say briefly about our schedule? We are beginning to come toward the closing time. I think we will go on with this forum for about 10 more minutes and then we will adjourn. Several members of the press have come here and may want to ask anyone of us up here questions. So, if each of you could stay for few minutes if any of them wishes to ask you questions. And I will and I trust Leo and Mel will and other members of the panel.

Could I now go down the table and ask you each to answer one general question I put to you and add any closing comments, very briefly, please, that you may have. The question I'd like to put to you is this President Bush is going to Asia on his first trip abroad next week. I am going to endeavor to express some thoughts to him as to what I think he might seek to accomplish there. If you could give one word of advice on one topic very succinctly to the President about what you would like to see him seek to accomplish while he is there, what would that be? Mike, may I start with you?

Mr. CHOPPIN. Yes, sir. I think we spend a lot of time telling people what they should buy and I have never found that to be very effective in selling. So, if he was going to Asia or any other foreign area, and he wishes to address trade, that he might, instead of telling them what we are going to sell them, possibly he asks the question, "What would you like to buy?"

Senator CRANSTON. Very good point, very succinct. Maria?

Ms. HSIA. I would compliment him on his decision to take a trip to Asia, because by going to Asian countries, he will see what is happening in Asia. So, I compliment his decision and encourage him to take more trips to different countries in Asia which would be helpful in the future when he discusses foreign policy or making any policy to work with the Congress.

Senator CRANSTON. Thank you. Chalmers.

Mr. JOHNSON. I would try and say to the President that there is a new agenda, that you cannot think like a 1960's mind any more. The United States is no longer a hegemonic power throughout the world; economic performance not military performance, is today the measure of our competition. We see the end of tensions with the Communist world in so many places that it is now time for us to begin to act on this. Moreover this new agenda deeply affects the United States because we have an unfavorable balance of trade with every nation in East Asia except Australia, and that includes the Philippines and a great many other places. If we really are concerned with the level of living of our descendants, it is time to acknowledge that it is Asia and the Pacific that define the competition today. You either compete effectively with Japan or you lose. The final point I would want to make is I am not suggesting that we copy Japan, but we must recognize that Japan sets the standards. We do not copy the U.S.S.R., but we have matched the U.S.S.R. We must similarly develop, in our own institutions and values, the ability to match Japan.

Senator **CRANSTON**. Mel.

Mr. **LEVINE**. Well, the first thing I would suggest, Senator is that he accept all of your suggestions on his trip to Asia, and specifically taking a leaf out of Mike's comments which I think are very appropriate, I would ask that he consider asking the Japanese in particular how and in what sectors they can most constructively and significantly reduce the trade deficit, and put some of the burden on the Japanese to assist us to help each other in reducing that deficit in much the same way in which Professor Johnson suggested earlier.

Senator **CRANSTON**. Leo.

Lieutenant Governor **MCCARTHY**. I would ask him to take you with him not just have a conversation before he leaves. I would want this President—this President has said he wants to be the education President, maybe the environmental President. I hope he is those things. But I would want this President to see that while the era of American leadership has pushed for regional military alliances since World War II, in the hope that we do not get into a World War III and that will continue to be important, that a drastic shift, a great reemphasis, in American energy and thought and policy should now shift toward America, the economic leader in the new world and a lot—several dozen of these things that we have been talking about here need to be done. And the President, in his discussions with Japanese and Chinese authorities ought to say a combination of things that have been addressed here to give a good sense of American resolve that we are going to remain a dominant economic force, the dominant economic force in the world. And that does not mean we impoverish other nations. It means that we can share with them some prosperity and give them that sense of confidence.

Senator **CRANSTON**. Thank you very much, Leo. Victor.

Mr. **LI**. The same. I think to say to the Asia leaders, "We are very proud of what we did in the post World War II period, very proud indeed, and yet we recognize the reality and scope of a Pacific era. It is going to take us a little while to get readjusted, with some rocky stretches along the way. Let none of us get too excited, as we hit some of these rocky stretches."

Senator **CRANSTON**. Diana.

Ms. **KANG**. I understand that President Bush will be in Korea for only a couple of hours. So, I do not think he will have a chance to really see what Korean economy is all about. But I hope that through this trip, he will be able to become more sensitive to growing anti-American sentiments in Korea and the impact it will have on the future United States-Korea trade relations. And also our U.S. trade policy should shift from protection resolutions to identifying more effective marketing tools.

Senator **CRANSTON**. I want to thank each of you for those responses which I think were very fine and let me—yes, you want to say one word?

Mr. **SEKI**. Yes.

Senator CRANSTON. Very briefly, Counsel General of Japan. Welcome to have you.

Mr. SEKI. Thank you very much. I appreciate being here. I learned a great deal by sitting here. I would like to limit my comments just to the last question you raised, what President Bush should do or would do. I, as a Japanese, I appreciate it very, very much and impressed when President Bush announced that he would attend the funeral of the late emperor. And I think that this feeling is being very widely shared by Japanese. And his presence in Japan at the time of the funeral would be greatly appreciated.

And I think that the United States, in spite of all the problems at the present, is a great asset in Japan and Asia and probably throughout the world. That is a high regard and respect that people feels toward the Americans and toward this country. And there is talk of a Japanese problem in this discussion but I do not think that this will do the justice or to the truth or to the body of this country or the body of Japan. Japan has some of our people in power, but I think the United States after all, has a great power and if there is any problem that the countries can solve it by your own hands. And I think that, of course, there are problems in Japan and, of course, there are problems in this country. But we can mutually help each other and that is what we are doing and I hope we will continue to do so.

And I am sure that the visit by President Bush to our country, to China, and to the Republic of Korea will help strengthen the American relations with this nation.

Senator CRANSTON. Thank you very, very much for those welcome comments. I suppose I should answer my own questions, so I will say that I would suggest to President Bush that he talk to the leaders in Asia with whom he meets and to others in whatever ways appropriate about having an annual forum of some sort where the leaders could gather at the summit to talk about our common interest and our common problems and seek to resolve them and set up a mechanism for consultation throughout the year below the summit level to bring us together as we have worked together with people in Europe.

And I would add to that the hope that he would express to the people there that we appear to be moving from a time when military security is really in transition to economic security and that we should focus our attention upon that realm, and that we should look upon it, each of us, from our own national standpoints, not as a zero sum game where we have to get an advantage over you to your disadvantage, but that all of us only gain an advantage when it is a common advantage for all of us. And if we approach our mutual needs and hopes and dreams and problems and challenges in that way, I think we can see some remarkable progress.

I want to thank Leo and Mel and each member of the panel for their participation, the members of the diplomatic corps for their presence and involvement and each and all of you who have been with us. Thank you very, very much. I have learned a lot. I hope all the rest of us have. We now stand adjourned. Thank you.

[Whereupon, at 12:27 p.m., the subcommittee recessed, to reconvene at 9:30 a.m., February 16, 1989, in San Francisco, CA.]

AMERICA'S ECONOMIC AND SECURITY INTERESTS ON THE PACIFIC RIM: BUILDING FOR THE 21ST CENTURY

THURSDAY, FEBRUARY 16, 1989

U.S. SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS
OF THE COMMITTEE ON FOREIGN RELATIONS,
San Francisco, CA.

The subcommittee meet at 9:30 a.m. in the Public Meeting Room, World Affairs Council of Northern California, 312 Sutter Street, Hon. Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston and Murkowski.

Also present: Hon. Leo McCarthy, Lieutenant Governor of the State of California; Hon. Mel Levine, Congressman from the State of California; Hon. James Ho, Deputy Mayor of the City and County of San Francisco; Mr. Gerald F. Warburg II, Legislative Assistant, and Ms. Colleen Sechrest, Legislative Aide.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. The hearing will please come to order.

This is a hearing of the Asian Subcommittee of the Senate Foreign Relations Committee. I thank the members of the panel who have come to illuminate the issues that we want to consider, and I am very grateful to them.

I am grateful to the World Affairs Council and to Casimir Yost, its executive director, who has arranged all of this, and for their hospitality today. I thank Gerald Warburg of my staff for his part in putting all this together.

I am delighted to be back in San Francisco to convene this unique set of hearings on America's interests in the Pacific Rim. This morning's hearing is the third in a series focusing on our long-term goals in Asia.

We had a session this week in Seattle, one in Los Angeles yesterday, and now this one. Our charge is to think imaginatively about the challenges of the coming century and to prepare for the opportunities we will have over the course of the next generation.

We are pleased to have with us a very distinguished group of business, academic, and community leaders, from who we look forward to receiving wisdom gained from day-to-day experience grappling with these issues.

To celebrate our respite from the ways of Washington, I am going to experiment this morning with something a little bit different, a roundtable format. I have asked each participant to offer brief remarks on their field of expertise, not, please, to exceed 7 to 8 minutes so we can get to an interchange of thoughts. I look forward, after we have heard from each participant, to moderating a freewheeling dialog on our broad topics among our panel of expert witnesses.

Before we begin, I want to share just a few observations.

Next week, President Bush makes an important statement by making Asia his first foreign destination.

A few days ago, I wrote to the President laying out a series of proposals for new initiatives on Asian policy. I have released the text of this letter publicly and I will discuss some of my thoughts in these hearings. I look forward to following up on our discussions and sharing with the White House some of the wisdom gained from our witnesses.

This morning, I would like to set the table, so to speak, by putting forward a tentative agenda for our Asian policymakers and then inviting the comments of our witnesses over the course of the hearing.

My premise is that sweeping changes throughout the Pacific provide tremendous challenges and opportunities for the United States.

Japan is awash in capital, its economy surging ahead, its military budget now the world's third largest, its foreign development assistance program second to none, and its trade surplus with the United States still hovering at $55 billion annually.

China is struggling with extraordinary economic reforms, and a GNP which promises to double in less than 10 years. On Taiwan, economic prosperity is bringing political reforms and new diplomatic opportunities.

South Korea, justly proud of its own economic miracle, is showing new political and diplomatic maturity, even as the younger generation presses for reexamination of ties with the United States.

The Philippines are forging ahead with their own economic revival, while coping with the twin burdens of Communist insurgency—Moslem insurgency also—and crushing international debt. As new leadership advances throughout the region, we must keep pace, keep involved, and provide our own leadership. If we don't, we will forfeit the ability to shape these changes in any way to our benefit.

I believe new initiatives are urgently required to secure American interests in East Asia as we build for the next century.

Highlights of the specific policies I am advocating include the following:

One, the United States should undertake a diplomatic initiative to establish a Pacific Basin forum for the address of regional concerns. This proposal should include establishment of annual summit-level meetings styled after those currently held by key NATO presidents and prime ministers. The forum should also make a deliberate effort to reach out to the Soviets and their allies Vietnam and North Korea, to encourage participation in a dialog about such common concerns as free trade, economic development, and security confidence-building.

We have been engaging in confidence building in Europe for many years now. We need a similar approach in Asia where, for example, at the DMZ the dangers of an accident because we haven't done all of this, some sort of collision that no one wants and nobody intends but happens, could lead to very dangerous consequences.

Two, on security issues, the United States should (*a*) press for a long-term solution to the Philippine base issue which addresses Manila's debt concerns while securing United States access to these crucial facilities at least through the end of this century; (*b*) welcome Japanese payment of more of our on-the-ground military costs on Okinawa, while discouraging Japan from assuming more broad military missions and recognizing that with the world's third largest military budget, Japan has already rearmed; (*c*) continue selected sales of defensive arms to Chinese on both sides of the Taiwan Straits; and (*d*) make clear that our troops in Korea will remain as long as they are needed as a deterrent against the north.

Three, on the trade front, we need to resist sweeping protectionist measures like the tariff bill. But we must not unilaterally disarm in the trade competition. The new, expedited "Section 301 Reviews" must be used for swift and certain retaliation when Americans encounter sector-specific discrimination. We need to use GATT mechanisms to open closed foreign markets, especially to our agricultural products, high-technology products and financial services industries.

Four, finally, in the area of education, I believe we need a major new commitment to combating illiteracy, whether it is illiteracy in English in our own workforce or international illiteracy in the board room. To create new export opportunities, we need to declare war on ignorance in our country.

George Bush has pledged to be the "education President." He can fulfill that commitment by joining Congress in leading a new national campaign to improve American training in math, science, and foreign languages.

There is more, much more to be done in developing an American agenda for the Pacific century. I look forward over the course of the morning to learning more of the ideas of those who are with us as we weigh the best means to prepare for the challenges ahead.

I thank again each of you for your time and for the contributions you will make. I look forward to our discussion.

I should now be recognizing Frank Murkowski, the Republican ranking member of our committee, Senator from Alaska. He will be here shortly but his plane apparently hasn't gotten him here quite yet. I am delighted that he is joining us.

I will now turn to Congressman Mel Levine of Los Angeles who is very involved in these issues, a leader in the House. He attended our hearings in Los Angeles yesterday and I am glad, Mel, that you are here today.

STATEMENT OF HON. MEL LEVINE, A U.S. REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. LEVINE. Alan, thank you very, very much and I very much appreciate your asking me to participate in the discussions today and yesterday regarding U.S. long-term economic and security interests in the Pacific Rim.

It goes without saying that I want to emphasize and compliment you on the leadership role that you have taken over the years on these issues and the marvelous leadership that you have given to all of us, both in California and in Washington, on Asian and Pacific issues.

I also appreciate your bringing me back to the birthplace of both my wife and my mother, San Francisco, and across the bay from the city in which I had the privilege 25 years ago as an undergraduate at Berkeley to introduce Prof. Bob Scalapino to 13,000 students before he had the dubious distinction of introducing Madam Nu to that same crowd in a different era of United States-Asia relations, 1963.

Mr. Chairman, California's link to the Pacific Rim economies has been a critical factor in the economic growth of both our country and our State. Similarly, Mr. Chairman, the Asian community, and particularly the Asian community here in California, has played a vital role in our own State's business, cultural, and civic affairs and I believe is an absolutely vital linchpin in the relations between California and the Asian countries in the 1990's and in the 21st century.

I hope that these hearings will focus on the key challenges that Congress will confront in fashioning an economic policy for the 1990's, while at the same time highlighting issues of particular concern to the pivotal Asian community here in California.

Our agenda today is very broad, but I feel it is appropriate and necessary that we stress the interrelatedness of the various aspects of our policy toward the Pacific Rim, as you have set out to do in these hearings. Too often we tend to see trade matters as unrelated to larger security concerns. Sometimes trade relations can frustrate our political relationships. Sometimes we fail to view bilateral issues in the broader regional context. There is no question, Mr. Chairman, that a more comprehensive approach is overdue. And I welcome that comprehensive approach in these hearings.

The dramatic growth of the Pacific Rim economy, coupled with the great gains for democracy in the region in recent years, leads me to believe that we may now have a chance to develop a more elaborated, integrated, and multilateral approach to regional issues.

I am delighted to hear the suggestions that you have offered, both in southern California and here, to consider developing a forum for increased coordination of policies and ideas in the Pacific Basin, and I believe that the legislation you will be submitting to create such a forum is extremely important in developing the framework that will enable us to more rationally view the broader problems in the region.

I would like to further explore proposals such as these today and hope that we can make some progress in articulating precisely what U.S. goals might be in setting up such regional institutions to deal with the variety of economic, security, trade, and other concerns in the region.

Also in the broader context, I believe perhaps the greatest looking issue is determining the regional role that Japan will play—

politically, economically, and militarily—in the next century, and whether this role will be assumed intentionally by Japan, or by default. It seems inevitable that Japan will have to accept more responsibilities in a number of areas, but how willing is Japan to assume a leadership role? And what problems would increasing Japanese importance in the political and military spheres present for the United States and for other Pacific Rim nations?

I am concerned, Mr. Chairman, that Japan has been unwilling, thus far, to truly acknowledge that the United States can no longer serve as the engine of growth for the developing world. A reorientation from the "Japan, Inc.." concept to the "Japan, Marketplace" philosophy does not yet appear imminent in the Halls of MITI.

Nevertheless, the longer term economic health of the Pacific Rim requires that Japan absorb a greater percentage of developing country exports and rectify the current large trade imbalances. This is, I hope, one of the things we mean when we speak of a greater leadership role for Japan. In this regard, I would like to explore the possibility that Japan will come to accept a more regional, as opposed to nationalistic, approach to Pacific Basin economic issues.

Closer to home, I hope we discuss what we can and should do to improve U.S. competitiveness in general, and export opportunities for Californians in particular. I have developed several initiatives aimed at boosting our long-term competitiveness.

First, I believe we need to promote an industry-led strategy for research and development in key high-technology sectors of the economy, along the lines of Sematech. Toward this end, I have started a High Definition Television Task Force in Congress to encourage a similar private sector initiative in the critical technology of HDTV supported by public sector resources. And I will be exploring other industries such as optics and biotechnology in which similar consortia could preserve the current U.S. technological advantage.

I have also introduced legislation to establish a civilian DARPA—defense advanced research projects agency. This agency would help develop and commercialize advanced new products and technologies so that a larger share of the Federal R&D budget would fund research with potential commercial applications.

And to increase our competitive footing in education, the most important investment we can make as a nation, I have introduced a bill to lengthen the school year throughout the country, and will be working to reform Kindergarten-through-12 math and science education to ensure that our children get an education that is second to none internationally.

And, finally, I have drafted legislation which I will introduce next week into Congress to make the Secretary of Commerce a statutory member of the National Security Council. I believe that it is time that we recognized that economic and trade related issues deserve national security designation in much the same way that diplomatic- and defense-related presently define our national security interests. And as the Secretary of Defense and the Secretary of State serve on the National Security Council, along with the President and the Vice President, so should our advocate for trade competitiveness and economic strength, the Secretary of Commerce.

At the State level, California, with enormous help from our terrific Lt. Gov. Leo McCarthy, who is with us today, has done a tremendous job in developing trade promotion and export finance programs in the past few years. As the new cochairman of the Export Task Force in Congress, one of my main priorities is to build support in Congress for programs that will fill the gap between State loan-guarantees and large-scale private funding for exports.

I also feel strongly that we need to bolster both the local Department of Commerce offices and the foreign commercial service if we are serious about promoting exports. A Commerce Department study last year indicated that U.S. commercial service has a total of 723 overseas personnel, while Japan has nearly 6,000. The disparities are particularly great in East Asia, and we need to redress this imbalance.

It would also be helpful to discuss the issue of export controls, both because of their importance to the California high-technology industries and because they could become a major irritant in trans-Pacific trade. The rapid pace of technological development and the growing involvement of China and the Soviet Union in regional trade will make it increasingly difficult for COCOM to monitor the flow of information and technology to the nonmarket economies.

At the same time, the recently proposed agreement to license F-16 fighter technology to Japan has deepened my concern about the advisability of sharing key technologies with our trade rivals, even though they may be military allies. Perhaps we need to refocus the mandate of our export control policy to give higher priority to long-term industrial competitiveness.

In addition, Mr. Chairman, I look forward to hearing about the particular concerns of the Asian community in California and their interests in California's Pacific Rim relationships. Recent immigrants from Asia will be critical in helping us to overcome our ignorance of Asian cultural and business practices, a factor often cited—and appropriately so—as contributing to our lack of success in cracking Asian markets.

I hope we can also keep the field of discussion open to such important issues as U.S. immigration policy, crime, drug abuse, and problems of discrimination, which are of particular concern to the Asian community and should deeply concern us all.

I look forward to exploring these and other topics today with the distinguished panel assembled here. I hope our meeting can also establish some basis for an ongoing exchange of ideas between academic experts, business and community leaders, and Members of Congress regarding the development of U.S. foreign, economic, and defense policies on the Pacific Rim.

Thank you again for including me in this conference.

[The prepared statement of Congressman Levine follows:]

PREPARED STATEMENT OF CONGRESSMAN LEVINE

Mr. Chairman, thank you for asking me to participate in today's discussion of U.S. long-term economic and security interests on the Pacific Rim.

California's link to the Pacific Rim economies has been a critical factor in our State's economic growth. Similarly, the Asian community has played a vital role in our State's business, cultural, and civic affairs. It is my hope that these hearings will focus on the key challenges Congress will confront in fashioning an economic policy for the 1990's, while at the same time highlighting issues of particular concern to California's Asian community.

Our agenda today is very broad, but I feel it is appropriate and necessary that we stress the interrelatedness of the various aspects of our policy toward the Pacific Rim. Too often, we tend to see trade matters as unrelated to larger security concerns; sometimes trade relations can frustrate our political relationships; or we fail to view bilateral issues in the broader regional context. There's no question a more comprehensive approach is overdue.

The dramatic growth of the Pacific Rim economy, coupled with the great gains for democracy in the region in recent years, leads me to believe that we may now have a chance to develop a more elaborated, integrated, and multilateral approach to regional issues. I am intrigued by suggestions made by George Shultz last year that we should consider developing a forum for increased coordination of policies and ideas in the Pacific Basin. I understand Secretary Baker has also been interested in perhaps duplicating the G-7 concept in the Pacific region. I would like to further explore these proposals today, and hope we could make some progress in articulating precisely what U.S. goals might be in setting up regional institutions to deal with the variety of economic, security, trade, and other concerns.

Also in the broader context, I believe perhaps the greatest looming issue is determining the regional role Japan will play—politically, economically, and militarily—in the next century, and whether this role will be assumed intentionally, or by default. It seems inevitable that Japan will have to accept more responsibilities in a number of areas, but how willing is Japan to assume a leadership role, and what problems would increasing Japanese importance in the political and military spheres present for the United States and other Pacific Rim nations?

I am concerned that Japan thus far has been unwilling to truly acknowledge that the United States can no longer serve as the engine of growth for the developing world. A reorientation from the "Japan, Inc." concept to the "Japan Marketplace" philosophy does not appear imminent in the halls of MITI. Nevertheless, the long-term economic health of the Pacific Rim requires that Japan absorb a greater percentage of developing country exports and rectify the current large trade imbalances. This is, I hope, one of the things we mean when we speak of a greater leadership role for Japan. In this regard, I'd like to explore the possibility that Japan will come to accept a more regional, as opposed to nationalistic, approach to Pacific Basin economic issues.

Closer to home, I'd like to discuss what we can and should do to improve U.S. competitiveness in general, and export opportunities for Californians in particular. I have developed several initiatives aimed at boosting our long-term competitiveness. First, I believe we need to promote an industry-led strategy for research and development in key high-technology sectors of the economy, along the lines of SEMATECH. I have started a high-definition TV task force in Congress to encourage a similar private initiative in the critical technology of HDTV, and I will be exploring other industries—such as optics and biotechnology—in which similar consortia could preserve the current U.S. technological advantage. I have also introduced legislation to establish a civilian DARPA—Defense Advanced Research Projects Agency. This agency would help develop and commercialize advanced new products and technologies, so that a larger share of the Federal R&D budget would fund research with potential commercial applications. And to increase our competitive footing with education—the most important investment we can make—I have introduced a bill to lengthen the school year, and will be working to reform Kindergarten-through-12 math and science education to ensure that our children get an education that is second to none.

At the State level, California has done a tremendous job in developing trade promotion and export finance programs in the past few years. As the new cochairman of the export task force, one of my main priorities is to build support in Congress for programs that will fill the gap between State loan-guaranties and large-scale private funding for exports. I also feel strongly that we need to bolster both the local department of commerce offices and the foreign commercial service if we are serious about promoting exports. A Commerce Department study last year indicated the United States commercial service has a total of 723 overseas personnel, while Japan has nearly 6,000. The disparities are particularly great in East Asia. We need to redress this imbalance.

It would also be helpful to discuss the issue of export controls, both because of its importance to the California high-technology industries, and because it could become a major irritant in trans-Pacific trade. The rapid pace of technological development and the growing involvement of China and the Soviet Union in regional trade will make it increasingly difficult for COCOM to monitor the flow of information and technology to the nonmarket economies. At the same time, the recently proposed agreement to license F-16 fighter technology to Japan has deepened my concern about the advisability of sharing key technologies with our trade rivals, even though they may be military allies. Perhaps we need to refocus the mandate of our export control policy to give higher priority to our long-term industrial competitiveness.

In addition, I look forward to hearing more about the particular concerns of the Asian community in California, and their interests in California's Pacific Rim relationship. Recent immigrants from Asia will be critical in helping us to overcome our ignorance of Asian cultural and business practices—a factor often cited as contributing to our lack of success in cracking Asian markets. I hope we can also keep the field of discussion open to such important issues as U.S. immigration policy, crime, drug abuse, and problems of discrimination, which are of particular concern to the Asian community.

I look forward to exploring these and other topics today with the distinguished panel assembled here. I hope our meeting can also establish some basis for an ongoing exchange of ideas between academic experts, business and community leaders, and Members of Congress regarding the development of U.S. foreign, economic, and defense policies on the Pacific Rim.

Senator **Cranston**. Thank you very, very much, Mel, for a very fine statement.

It now my pleasure to call upon Lt. Gov. Leo McCarthy who, as Congressman Levine says, has insights into the matters that bring us together today. Leo was recently on a trip to the Far East.

Leo.

STATEMENT OF HON. LEO McCARTHY, LIEUTENANT GOVERNOR FROM CALIFORNIA

Lieutenant Governor **McCarthy**. Thank you, Senator Cranston, your colleague Senator Murkowski, Congressman Levine, and the other distinguished panelists here, ladies and gentlemen, you are going to hear a good deal of information this morning about security, cultural, diplomatic, and economic considerations that we must weigh in trying to build a plan for our future relationships with Asian-Pacific countries.

I want to give you just the perspective—and you will hear more from Greg Mignano a little bit later on—of a State official trying to build a plan for California's economic relationships which is based on some of our own initiative as well as based on foreign policy.

I just returned from a second economic development mission, this time to Indonesia and Taiwan and Hong Kong. The State government has a limited set of tools that we can use in trying to develop those economic relationships. As big as we are—we like to compare ourselves to a nation—we can't impose sanctions on another nation to lift trade barriers. We can't build better products, that is not our role as a State government.

But representing California, we can serve as a promoter of California's goods and services, as a facilitator of joint ventures with foreign partners, as an intermediary connecting California's economic interests with would-be partners throughout the Asian-Pacific region. We can do a number of other things.

And we have been working at trying to develop those linkages. After years of efforts to increase trade, and especially exports, what is most striking is how far we yet have to go in trying to provide these connections.

Five years ago on a similar trip to the Pacific Rim, we heard why American efforts to do business in many of those nations have been often sidetracked. It was suggested that ignorance of special needs, cultures, and practices reduced our opportunities. It was said American businesses would not adapt for targeted markets. Our carmakers would not build cars that could drive on the left side of the road. Our refrigerators were too big for many of the small-sized kitchens found in Asian households. Our foods were packaged in colors that had negative connotations to would-be buyers. And very few of our marketers spoke the language of the hoped-for trading partners. Now that was 5 years ago.

And yet last week some of us met with a number of the Hong Kong community business leadership and we asked what we would could do to improve the sales of American products and California products in the Hong Kong region and other places in East Asia.

Their response was unanimous. They said, "You need greater sensitivity to the special needs of our market and these other markets." They say we are still not paying enough attention to what they would buy if approached correctly. And that was a Hong Kong view.

On our recent trip, we also met with the Minister of Economic Affairs in Taiwan. Much to my surprise, he said that, with a few exceptions, California businesses are not visible in Taiwan, despite the fact that over the last several years with a lot of battering coming from our Federal officials, Taiwanese restrictions have been relaxed.

Well, there are always two sides, two interpretations to what the opportunities really are. And obviously, the statements made by foreign business leaders and foreign government officials is going to look at it through our perspective, through our eyes.

But we went to Indonesia. One of the first meetings we had was with the American Chamber of Commerce there. And we sat with about 15 representatives and executives of American corporations doing business in Indonesia. And they made yet the same point. That American businesses in general just did not exhibit the kind of patience that was required, the tenacity that was required to learn the nuances and subtleties of doing business in those areas.

For sure, they emphasized that there was a very unpredictable bureaucracy with which American businesses have to deal—and other foreign investors, for that matter. But they said the long-term opportunities in Indonesia for us, for our businesses, were very, very good.

Well, despite some things seeming to stay the same, economic relations have improved. We have made some very positive steps forward with Pacific Rim nations. There are a lot of reasons for that. The dollar is down. The threat of severe protectionist legislation in the Congress worried some foreign government leaders and, in effect, compelled them to make adjustments in making it a bit easier to do business in some of their nations. And many California businesses have taken the initiative and are beginning to develop personal relationships with their counterparts in the Asian-Pacific region.

But Senator, and Congressman, maybe the most helpful sign of what I see developing in California in recent years, a sign of much better things to come, is the stunning growth of the Asian-Pacific-

American community in this very State of ours. That community I see as the major catalyst for increasing trade in these areas.

These Californians have a personal, historical, and cultural knowledge of Pacific Rim nations. They understand the special approaches that are required. And many of them make one or two trips monthly to get to Asia, to enhance their businesses. You are going to hear from David Lam and from James Ho in this discussion. They represent broad constituencies of all Californians but have special knowledge of the efforts of Asian-Pacific Californians to try to do business in that vast region to our west.

If we are smart, we are going to recognize that very unique asset that California has. We should see them as an untenured faculty. We should be awarding them honorary Ph.D.'s in international trade. Because they can indeed be our point guard out there for us. Federal and State officials should constantly consult with them, as well as the scholars that have been studying this region for a long time, and have been making many valuable contributions without being heard.

I close with two additional specific recommendations.

First, we must produce more Americans educated in the cultures, economies, laws, and languages of our present and future trade partners in the Asian-Pacific region. Now you have heard this before, many times, but it really needs repeating. There are 10,000 Japanese business executives in America who speak and who read English. There are 200 American business executives in Japan who speak and read Japanese.

The educational institutions can't do that by themselves. They are ready, willing, and able to play their role. But until corporate leadership understands the importance of placing young Americans who have had this kind of education and preparation in these nations where the potential is so enormous for trade in the future, until the private sector makes that investment, you are not going to see a lot of students entering into these intensive studies because they want some reasonable prospect of being placed in jobs that have a career ladder going up.

The second point I wanted to make is about California's infrastructure. Now this is primarily a State responsibility. We must assume that. We can't shuck that off to the Federal Government. But up until quite recently, the Federal Government bore a greater role in the financing of public construction works which we have perceived, at least since the days of President Eisenhower, as a good investment of public tax dollars because they stimulate a lot of private investment on top of that public investment.

And the seaports and the airports and access to those ports, those gates to trade, are in woeful condition and badly need our attention, if you will. It is still primarily a State responsibility. But up until recently, the Federal Government did give some greater degree of help. And it is something I think we should jointly be looking for.

Senator, I thank you for arranging these valuable hearings and I look forward to hearing from the other panelists.

Senator CRANSTON. Thank you very much, Leo. I appreciate very much your testimony. That is a startling shocking figure, the

10,000 Japanese businessmen in America who speak our language, and the 200 Americans over there that speak their language.

I am delighted that Frank Murkowski, my partner on the subcommittee, the ranking Republican Senator from Alaska, is now with us.

I am delighted you came down here, Frank. It is a pleasure to work with you on this committee. We welcome you and are eager to hear whatever you wish to say.

OPENING STATEMENT OF SENATOR MURKOWSKI

Senator MURKOWSKI. Thank you very much, Alan. I very much appreciate the invitation to come down since I couldn't be in Seattle or Los Angeles for your other meetings. But I have traveled a good portion of our side of the Pacific Rim already this morning. [Laughter.]

So I have some idea how big it is because I have the occasion to go back and forth to Alaska. And it can take your whole day or your whole night, or half of either one. It is about 12 hours one way.

But I think we are here to hear the witnesses. I commend you for the distinguished panel that you have of witnesses. I have an opening statement, a rather lengthy one, which I would ask be entered into the record. And it compliments you, sir, on your commitment to gather these folks together.

And I certainly concur that we too can participate not only in the Pacific Rim interests from the standpoint if the realities of the Pacific Rim is where the action is. And now the question is, what kind of role will we continue to play in the expanding market.

And you and I both know there is a very interesting issue of reciprocity that pertains to market accessibility. I think the bottomline is, we would like to have the same market in our Asian countries as our neighbors share in our markets. And we might need a little leverage from the State Department once in a while.

But in any event, it is an exciting area, it is an expanding area and while I didn't hear Leo McCarthy's entire statement, I certainly concur that from an educational point of view it has been a one-way street for far too long. We need the commitment in our universities. We need the commitment in our businesses, to learn the languages, make the sacrifices in the sense of the long-term rewards.

And, unfortunately, the American mentality too often says we want things quickly and think we ought to have a reasonable share just because we are there. But it doesn't work that way.

So, Alan, I look forward to participating in the panel. And I thank you for affording this opportunity.

Senator CRANSTON. Thank you very much, Frank. I appreciate those instructive and helpful remarks. And your entire statement will be made a part of the record.

[The prepared statement of Senator Murkowski follows:]

PREPARED STATEMENT OF SENATOR MURKOWSKI

I want to thank Senator Cranston for chairing this hearing today and the World Affairs Council for agreeing to hose the subcommittee. Our topic is one of both extreme timeliness and importance: America's role in the Pacific century. It is appropriate that we are holding this hearing on the west coast in fact, it is becoming a tradition. Last year I had the opportunity to participate in hearings in Los Angeles. Before that, the subcommittee held hearings in my home State of Alaska.

Alaskans and Californians—despite the difference in our respective climates—have a great deal in common. Alaskan citizens are perhaps the most interested in developments between the United States and the countries in the Pacific Rim and there are good reasons for this. Because of our proximity to East Asia, many of our citizens are immigrants or descendants of immigrants from countries in the Pacific Basin. In addition, our economic livelihood dictates that we take an active interest in our political and economic relations with these countries. My home State has the distinction of being the only State to run a trade surplus with Japan, Taiwan, and Korea. We rely on these countries as markets for our timber, fish, and energy resources.

There is not doubt that over the last few decades we have seen very significant developments in the political and economic structure of the countries in the region. Japan has become an economic powerhouse. Japanese financial institutions dominate international financial markets and Japan is now the world's largest creditor. Japan is also assuming a greater role in providing foreign assistance to the developing countries in the world. This year, Japan will surpass the United States as the largest international aid donor. On other fronts, we have witnessed the strengthening of democratic institutions in Taiwan, Korea, and the Philippines. China is experimenting with free market mechanisms and talking with the Soviets. Tensions on the Korean peninsula are decreasing. Following on the heels of Japan's economic success are the Asian tigers. The list goes on.

There is a school of thought that interprets these developments these developments as indicative of America's demise as a world economic and military power. But there is another school of thought that interprets the dramatic rise of democratic, free market institutions throughout Asia as the positive result of a forwardlooking American foreign policy. Regardless of the school of thought to which you belong, one thing is certain—the world is no longer the same world America led in the postwar period. We are entering a new age and we must modify our foreign policy objectives to accommodate new realities. That is the intent of these hearings, to create a forum for individuals with varied backgrounds and from various fields of expertise, to share your thoughts on the U.S. role in the Pacific century.

I look forward to the testimony we will hear today and thank you all for your willingness to participate.

Senator CRANSTON. We will now go to the panel. But before we do so, I would like to stress to the members of the panel two points.

First, please summarize your statements if they would take more than 7 or 8 minutes so that we will have time for our discussion. If you keep going after 8 minutes, I am going to have to interrupt. So, please do your best to hold to that.

And, second, please prepare as you listen to what your colleagues have to say to comment either agreeing or disagreeing or elaborating. I think the most helpful thing we can do is get an exchange of ideas where you agree or disagree for the sharpening of our thinking on the topic that we are gathered here to consider.

The first member of the panel who will speak is the Hon. James Ho, Deputy Mayor of San Francisco.

STATEMENT OF JAMES HO, DEPUTY MAYOR FOR BUSINESS AND ECONOMIC DEVELOPMENT FOR THE CITY AND COUNTY OF SAN FRANCISCO

Mr. HO. Senator Cranston, Senator Murkowski, Lt. Gov. Leo McCarthy, distinguished panel and guests, it is a pleasure to be here today.

My name is James Ho. I am the Deputy Major for Business and Economic Development for the City and County of San Francisco.

In this position I am charged with supporting our business base and with ensuring that our local economy continues to thrive and grow.

In your hearings today, you will be covering a variety of aspects of our country's concerns as they relate to Asia. However, as a local official chartered to support the business sector, I will limit my brief comments to the international trade arena and specifically the area of exports as seen by the local level.

I don't believe I need to bother you with a myriad of statistics, but I do think it is important to briefly realize the importance of Asia as a market to the United States.

According to the Department of Commerce, Japan, Taiwan, South Korea, and Hong Kong alone account for over one-third of our imports and about one-fifth of our exports.

Since 1982, the volume of trade traversing the Pacific has been greater than that crossing the Atlantic.

With the OECD predicting that in Asia only Indonesia will grow by a rate of less than 4 percent this year, we are certain to see our country's trade reliance with Asia grow as their economies continue the explosive growth that has been the trademark of the region.

Lately, the main topic in the trade arena has been America's increasing exports, due primarily to the lower value of the dollar.

Again, the OECD has detailed that America's export volume has risen 52 percent over the last 3 years. This is a remarkable statistic and a rate considerably higher than any other OECD nation, including Japan, whose exports rose by only 3 percent over the same period.

So, it would seem that our Nation has turned a corner and is quickly becoming an export-oriented nation.

However, it is important to note that the same report detailing our rising exports, also shows that our import volume has also risen considerably over the last 3 years. In fact, by 27 percent.

In addition, it should also be noted that our trade deficit of $121 billion in 1988 is little changed from the $122 billion deficit we experienced in 1985 prior to the dollar's plunge.

Furthermore, according to a recent report from the California World Trade Commission, Mr. Mignano's organization, 80 percent of America's exports come from just 200 companies. America's export knowledge is simply confined to a small strata of companies.

Exporter magazine further defines the lack of export knowledge throughout our economy. In 1987 according to their surveys, approximately 86,000 small manufacturers sold something abroad accounting for only 9 percent of our merchandise exports for that year. Over half of the first made less than one foreign sale per month.

Compare this to Taiwan, where 98 percent of the 700,000 firms in existence are considered small companies, "small" being defined as having capital of less than $1 million.

This aggregation of small firms is estimated by the Taiwanese Government to account for over 70 percent of the export volume and dollars of that country.

My statement today is that the United States has yet to learn how to trade in the Pacific, the our small business sector which has recently been the engine of growth in the economic is not partaking of international opportunities. And that we have not committed ourselves to providing solutions to make us a trading-oriented country.

The basic orientation of this country is inward looking. Unlike an island nation such as Japan or Taiwan, our high continental market has dwarfed any overseas market and has created an environment basically ignorant of the market opportunities outside our borders.

We don't have the institutions in place to support export trade. Our educational system doesn't encourage or support us in learning other languages. Our businesses do not allocate resources to study foreign markets with diligence. And our economic system demands a short-term mentality which is not conducive to the development of foreign markets.

In order for us to truly take advantage of the market in the Pacific and to approach becoming a trading nation, the community must embrace exporting. In my opinion, at this time it does not.

This is borne out no more clearly than in the lack of programs and support that the Government exhibits in servicing the international trader, especially when you compare our efforts to those of countries whose success we want to emulate.

Economist magazine quoted an unreleased Department of Commerce analysis that looked at export promotion programs for Canada, Europe, and the United States. The findings were that America "ranked last or near last in 1987 in most comparative indicators of commitment to export promotion."

I feel there is much that can be done by Government to help. On the local level, municipalities around the rim in their frustration are beginning to explore ways to activate and encourage their small business and medium sectors to export. This may take the form of seminars in export methods, financial assistance or coordination in international networking.

The State, through the World Trade Commission and its export finance office, have also been active in creating new programs to assist in this venture. But the Federal Government with its financial resources and ability to set a direction for the Nation must become the leader in this effort.

I note some small steps are being made. Recently an export licensing office was opened in Los Angeles, the first west coast office. No longer does an exporter of certain goods have to go to Washington for assistance and to process these licenses.

However, why did it take so long to open this office? And with the abundance of small and medium high-technology firms in our region, why has not another office been opened in northern California?

The Export-Import Bank last year initiated a pilot program with the city of Los Angeles to make their services and funds more readily available to the small business sector. This is an effort I applaud. As with the recent retreat of many of our commercial banks from the trade financing area, new innovative financial options must be made available to the small and medium businessman.

This city followed up on this effort. We found that both the Export-Import Bank and the financial institutions that supported this program were anxious to expand this program. However, this expansion has been delayed or canceled due to new budgetary cutbacks and restraints placed on the Export- Import Bank.

The Government is demonstrating that it is not willing to place scarce resources in places where it can be accessible to our small- and medium-sized business community, but rather leave it with unapproachable institutions in Washington, DC.

Funding for the Export-Import Bank and expansion of its services to the local level should be a top priority.

Another example is the International Trade Administration. In San Francisco, their offices are often the only avenue of information available for those small and medium firms interested in trading abroad. But again, due to financial constraints, the International Business Library can only be opened for 4 hours each afternoon and the small staff simply cannot handle the requests it receives.

What kind of message are we sending our business community when the Government is not willing to show support for basic export services?

This extends to the comparative lack of commercial officers overseas. These officers are often a gold mine of; information and connections for the interested businessman. But it is ridiculous that we usually will have only one or two officers posted in a country. Compare this to the legions of trade officials from overseas stationed just in San Francisco.

In my capacity as deputy mayor for business and economic development, my first month was almost totally consumed with courtesy calls from overseas trade officers stationed in San Francisco. Furthermore, they are continually introducing me to their contacts visiting from overseas who bombard us with exhaustive questioning.

The questions always lead to one conclusion. How do we get into your market. If I so choose, these meetings alone could probably provide me with a full-time job.

Senator CRANSTON. Jim, I am going to have to ask you to try to summarize because you are——

Mr. Ho. All right, I will summarize.

You will be hearing many speakers today addressing the varied subjects. If I can ask you to remember one thing, it is this: From my experience in this city, our country is a long way from being able to effectively compete in the Pacific.

Changes must be made. But these changes will not occur unless the Federal Government reinforces that our country is truly committed to international trade. Trade is more than big business. It is small- and medium-sized business too. At this time we have done nothing to prove to this sector that our belief in the important of international trade is sincere.

We must devise programs and services and fund them. We must push the community into thinking globally and we must set the tone to encourage business to look abroad. Our goal should be that we weave the transactions of domestic and international business so closely that the distinction between the two disappears.

We in the city of San Francisco and at the municipality level are beginning to do our part. We will raise the consciousness level. We will provide what materials and direction we can. We will work actively to mobilize our community to become involved. This is our commitment.

But it is imperative that the Federal Government stand behind this effort with the support, resources, and services that only you can provide. This should be your commitment.

Thank you very much.

Senator **Cranston**. Thank you very much Jim.

On the matter of an export licensing office in northern California to help expedite licensing and get decisions and not have to deal with people back East in a different time zone and a different orientation toward Europe, I have been fighting to get that.

We did get one in southern California due to efforts I made in Newport Beach and now which is of some help up here. We are now working to try to get one opened up here. The budget is the only problem we face in getting this one but I hope in the course of time we can.

It is now my pleasure to call up Prof. Robert Scalapino, director of the U.C. Berkeley Institute of East Asian Studies, a renowned expert on all the ins and outs of issues affecting us and affecting Asia.

Bob.

STATEMENT OF PROF. ROBERT A. SCALAPINO, DIRECTOR OF THE INSTITUTE OF EAST ASIAN STUDIES, U.C. BERKELEY

Dr. **Scalapino**. Thank you very much Senator Cranston, and other public officials, members of the panel, and guests. I am going to summarize remarks which are entitled, "The Current Asian Scene in the United States."

At the outset, let me signal what I think are some of the most important changes that are underway in the region as a whole.

First, economics is in command to a greater extent than at anytime in the past both in domestic and in international affairs in the Pacific-Asian region. It was not always so. At the end of World War II, politics was in command as first-generation leaders sought to build nations.

Second, in Asia as elsewhere, developmental priorities are driving an increasing level of economic interdependence, even integration. Trade, foreign investment, and transfer of technology are accelerating. As you know, there is an amazing growth of economic intercourse between countries that have different ideological and political systems. The growth of economic relations between China and South Korea, between China and Taiwan, with the Soviet Union soon to follow suit in its relations with South Korea and even the North-South Korean relationship is amazing.

Third, as a compliment to the surge of economic concerns, the role of ideology is declining, in the Leninist states as well as in others, with second- and third-generation leaders taking a more pragmatic, problem-solving approach to the issues confronting them.

And what I regard as most important, political legitimacy can no longer be achieved by the inculcation of faith. Now the citizen, even in the Leninist states, is asking, "Am I better off? What have you done for me recently?" It is impossible to exaggerate the importance of that change in key authoritarian societies.

Fourth, the experiments in the PRC and the U.S.S.R. are the most far-reaching efforts to make fundamental change since the Bolshevik Revolution. This new revolution in my opinion cannot yet be defined in terms of its probable successs or failure. We are at too early a stage. There are many problems that lie ahead. But the effort is significant. And I believe the small Communist states of Asia will follow suit, the only issue being the timing and the extent of boldness.

I have indicated, however, the next 3 to 5 years will represent a critical period for the Chinese and Soviet experiments. No Leninist state has yet found an effective way of combining a command and market economy. Both of these states are wrestling with fairly serious economic problems with a crisis of confidence on the part of many of their people.

China has the advantage of a legacy of entrepreneurship that lies deeply embedded in its culture. Mr. Gorbachev doesn't have that asset to count upon. In addition, there has been a far more tenacious hold of Stalinism upon the Soviet economy.

But even if the current leaders of China or the Soviet Union should falter, it is my view that these societies cannot and will not return to the past. Developments in the broader world encasing them, their own increasing porousness that allows global developments to penetrate them will not permit it. Other reformers armed with new programs will emerge whatever temporary retreats may occur.

Fifth, the political trends in other parts of Asia are generally in the direction of greater political openness, a natural accompaniment to the sweeping socioeconomic changes of recent decades. And this revolution is coming from below, not from the top. Moreover, it is the product of success, not failure.

Sixth, the monument to political stability and economic progress remains Japan. That is likely to be true for the rest of this century and beyond. I would define Japan's success as having rested upon the fruitful interaction between effective statescraft and a vibrant private sector in the context of a supportive culture and a compatible international environment. All four of the factors I have just mentioned should be accorded near equal weight.

As is well known, Japan's central problems today lie not in its domestic policy so much as in its external relations. The very cultural traits that have been conducive to its inner cohesion and the success of its economic strategy now serve as barriers to the type of openness its economic partners demand.

Cultural changes are taking place in Japan as elsewhere, but more slowly than the extraordinary economic change that has unfolded in recent decades. Consequently, Japan is a global economic power but with weak internationalist attitudes and policies, and with elements of uncertainty respecting its regional and global roles.

Let me, Mr. Chairman, in conclusion speak to some of the bilateral issues that are going to be so important in the immediate future. Let me begin with United States-Soviet relations.

Our relations with the Soviet Union are improving and that trend will continue in my view because both nations need a respite from heavy armament burdens and the extensive international commitments of the past.

Even in the event of Mr. Gorbachev's failure, which is certainly not to be desired, the Soviet Union would have to continue its quest for accommodation with the United States after an uncertain interlude.

Neither state, however, will surrender on issues considered critical to its national interests and hence the bargaining of the future will be tough.

Sino-Soviet relations. In the period ahead, these relations will be normal but not wholly trusting, in my opinion. The specific issues that are current are en route to being resolved or contained. We may even see the reestablishment of party-to-party relations in the near future. But the basic geopolitical facts of life cannot be fundamentally altered, even in this high-technology age. Two empires must live cheek-by-jowl with each other with no buffer state system to separate them and with huge differences of culture, stage of development, and degrees of power. Only a common enemy could bring them into intimate relations again and none is on the horizon.

The relations between China and the United States will remain relatively good, in my view, despite continuing differences over economic issues, Taiwan, human rights and policies toward the Third World.

To serve its political interests, China will continue to proclaim itself nonaligned. And to aid in redirecting its limited resources, it will continue to reduce tension with the Soviet Union. But to advance its two critical interests, security and development, it will pursue a policy of tilted nonalignment. And the tilt will be toward the United States and Japan.

United States-Japan relations stand at a crossroad. Acrimony can rise, even though both parties recognize that a combination of economic interdependence and strategic dependence dictates relations ever more intimate. Or steps can be taken to advance the coordination of our economic, political, and strategy policies at the planning stage.

Mr. Chairman, I feel very strongly that we need a bilateral commission that has lengthy tenure that looks into all aspects of the medium- to long-range issues so that we can prevent recurrent-crisis-type events from erupting in the political arena.

Finally, the relations between Japan and the Soviet Union are likely to remain relatively low-key in the years ahead. Theoretically, if the U.S.S.R. can get its economic act together, Japan can play a significant role in Russia's modernization, whether in its European or Siberian sectors. But this may be a prolonged process and, in any case, the lengthy history of conflict and contention between these two nations together with such current obstacles as the northern territory issue and the massive close-in presence of Soviet military power inhibit close relations in the foreseeable future.

When this survey is considered in its entirety, however, it augurs well for Asia's future. One can afford to be cautiously optimistic. And, therefore, whereas the United States may face discouraging damage-containment tasks in other regions, in the Pacific-Asian region it has the opportunity to advance creative, constructive policies based on the prospect that peace and economic growth will be the predominant trends.

Thank you.

[The prepared statement of Mr. Scalapino follows:]

PREPARED STATEMENT OF ROBERT A. SCALAPINO

The changes underway in the Pacific-Asian region bear witness to the revolutionary nature of our times. At the outset, I should like to signal those with greatest relevance to Asians and to us.

1. Economics is in command to a greater extent than at any time in the past both in domestic and international affairs. It was not always so. In the years after 1945, politics was generally paramount, especially in new states, with first-generation leaders placing their priority on nation-building.

2. In Asia as elsewhere, developmental priorities are driving an increasing level of economic interdependence--in some cases, partial integration. A division of labor previously vertical is moving in a horizontal direction. Trade, foreign investment, and the transfer of technology are accelerating within the region, stimulating and being stimulated by high growth rates. Economic intercourse, moreover, is jumping over ideological and political boundaries as indicated by the amazing growth of economic intercourse between China and South Korea and China and Taiwan, with the Soviet Union likely to follow suit, and even the North-South Korean relationship is showing signs of flexibility in the economic realm. These developments are the spearhead of a broader pattern of Asianization--the development of a thickening network of ties among and between states that only four or five decades ago lay half-foreign next to each other.

3. As a complementary development to the surge of economic concerns, the role of ideology has declined, in the Leninist states as well as others, with second and third generation leaders taking a more pragmatic, problem-solving approach to the issues confronting them. Most importantly, political legitimacy can no longer be achieved through the inculcation of faith. Now, the citizen--even in Leninist states--asks "Am I better off?" or "What have you done for me recently?" It is impossible to exaggerate the importance of this change.

4. The experiments in the PRC and the USSR are the most far reaching efforts to effect fundamental changes in the Leninist system since the Bolshevik revolution. This new revolution stems from failure not success, and it is being initiated from the top, not the bottom. A significant portion of the political and intellectual elite recognize that the Stalinist economic strategy has reached a point of diminishing returns, and unless drastic changes are undertaken, their societies cannot be competitive in the twenty-first century. The small Leninist states of Asia are

certain to move in the same direction, with the initial signals already visible. The only issues relate to timing and extent of boldness.

Yet the next three to five years will represent a critical period for both the Chinese and Soviet experiments. No Leninist state has yet found a truly effective way of combining a command and market economy. Both these states are wrestling at present with fairly serious economic problems, with a crisis of confidence in the party and government existing. In the case of China, moreover, the issue of succession lies immediately ahead.

Perhaps China has an advantage in the legacy of entrepreneurship that lies so deeply imbedded in its culture. Gorbachev and his associates cannot count upon this asset. In addition, the far more tenacious hold of Stalinism upon the Soviet economy together with the rising challenges to the Soviet empire make his situation particularly delicate. But even if current leaders in China or the Soviet Union should falter, these societies cannot return to the past, in my opinion. Developments in the broader world encasing them--and their increasing porousness that allows global developments to penetrate them--will not permit it. Other reformers armed with new programs will emerge, whatever temporary retreats occur.

5. Meanwhile, the political trends in other parts of Asia are generally in the direction of greater political openness, a natural accompaniment to the sweeping socioeconomic changes of recent decades. In these cases, the current political revolution and much of the initiative is coming from below, not from the top. More precisely, new "middle classes," more literate, affluent and politically conscious, are injecting themselves into the political process.

Not all authoritarian states of the past are yet prepared to undertake the experiment in parliamentarism, and among those that do so, success is not guaranteed. Serious cultural obstacles must be overcome, and dependence upon leadership will remain high. Even among states in which democratic institutions have been planted, we have witnessed slippage in some instances, with Malaysia and Singapore being current examples. But the broad trend is toward more participatory, open societies in Asia.

6. The monument to political stability and economic progress remains Japan, and that is likely to be true for the rest of this century and beyond. Japan's past success has rested upon the fruitful interaction between effective statescraft and a vibrant private sector in the context of a supportive culture and a compatible

international environment. Each of these four factors warrants special attention since in the dynamics of their interrelationships lies the secret of Japanese achievements. Nor can the major contribution of the United States be ignored. The U.S. provided Japan with the opportunity to pursue a market foreign policy by furnishing Japan's security needs while at the same time, opening its markets to Japanese products at an early point in the postwar era and sponsoring Japan elsewhere in front of a skeptical, largely hostile world.

As is well known, Japan's central problems today exist in its external relations. The very cultural traits conducive to its inner cohesion and the success of its economic strategy now serve as barriers to the type of openness that all of its economic partners demand. Cultural change is taking place in Japan as elsewhere, but more slowly than the extraordinary economic change that has unfolded in recent decades. Consequently, Japan is a global economic power, but with weak international attitudes and policies, and with elements of uncertainty respecting its regional and global roles.

7. The above conditions and trends provide a basis for analyzing regional relations, and the foreign policies of the principal Pacific-Asian nations. First, some general observations are warranted. The risks of a major power conflict are at their lowest level since World War II. Because the USSR, the PRC, and the U.S. are confronted with serious domestic problems, each is seeking a lower-cost, lower-risk foreign policy.

Second, their cooperation in resolving or containing regional crisis is promising as developments with respect to the Korean peninsula and Indochina indicate. The small Asian Communists, moreover, worried about Sino-Soviet rapprochement and their own serious internal problems, are going to turn out, looking for help from Japan and the United States. Indeed, the process has already begun.

While the prospects for peace in the Pacific-Asian region are thus relatively good, two negative factors must be noted. No discernable progress has been made in racial, ethnic, or religious relations within or across national boundaries. On the contrary, retrogression has taken place in some cases. Second, certain governments have failed to meet the minimal social and economic needs of their citizens. If not remedied, these factors provide the basis for future domestic and regional strife.

At a broader level, many alliances are becoming alignments. The tightly knit, relatively exclusive alliances that divided the world after 1945, are increasingly porous, with the major parties providing only conditional guaranteees of security and economic support, and the minor parties exhibiting greater political independence. For both the United States and the Soviet Union, the management of alignments will be supremely important in determining the nature of the twenty-first century world.

By the same token, genuine nonalignment, whatever its political value as a rhetoric statement, is less desirable and less possible in our increasingly interdependent world. Virtually all states are being drawn into some economic, political, and strategic orbit, granting the greater flexibility noted in every relationship.

Meanwhile, we are in a transitional period when each state, and particlarly the major states, must simultaneously cope with bilateralism, regionalism, and multilateralism at the global level. It is our task to reduce the conflicts among these forces, and live with the contradictions that cannot be resolved. Regionalism is clearly growing in Asia. Witness the developments with respect to ASEAN (Association of Southeast Asian Nations), SPF (South Pacific Forum), and SAARC (the South Association for Regional Cooperation). Even in Northeast Asia, where historical and contemporary factors combine to prevent any formal organization, an intensive if soft regionalism has developed as earlier noted. And apart from these activities, an all-Pacific association has developed in the form of the PECC (Pacific Economic Cooperation Conference). Will these various bodies, still relatively fragile, develop deeper roots? And will they evolve toward closed entities or exhibit openness? The latter question, it will be recognized, is a part of the broader concern regarding economic regionalism that currently focuses on the EEC and 1992.

Bilateral relations in the Pacific-Asian region are especially critical as they relate to four states: the U.S., USSR, PRC, and Japan. Briefly--and therefore dogmatically--I shall provide my perspective on relations between these states now and in the near future.

U.S.-Soviet relations are improving and that trend will continue because both nations need a respite from the heavy armament burdens and extensive international commitments of the past. Even in the event of Gorbachev's fall--which is certainly not to be desired--the Soviet Union would have to continue its quest for accommodation with the United States after an uncertain interlude. Neither state, however, will surrender on issues considered critical to its national interests. Hence, bargaining will be tough on matters like strategic and conventional arms reductions.

Sino-Soviet relations in the period ahead will be normal but not wholly trusting. The specific issues that are current are en route to being resolved or contained, but the basic geopolitical facts of life cannot be fundamentally altered even in this high tech age. Two empires must live cheek by jowl beside each other with no buffer state system to separate them, and with huge differences of culture, stage of development, and degrees of power. Only a common enemy could bring them into close relations again--and none is on the horizon.

The relations between the U.S. and China will remain relatively good despite continuing differences over economic issues, Taiwan, human rights, and policies toward the so-called Third World. To serve its political interests, China will continue to proclaim itself non-aligned, and to aid in redirecting its limited resources, it will continue to reduce tension with the Soviet Union. But to advance its two critical interests--security and development--it will pursue a policy of tilted nonalignment, and the tilt will remain that toward the United States and Japan. For our part, a politically stable, economically developing China is in the U.S. interest, but those who would seek an alliance with China against Russia should realize such a policy is both passé and dangerous.

U.S.-Japan relations stand at a crossroads. Acrimony can rise even though both parties recognize that a combination of economic interdependence and strategic dependence dictates relations ever more intimate. Or steps can be taken to advance the coordination of our economic, political, and strategic policies at the planning stage--thereby moving toward a greater integration of policies. Surely this is one of the most critical challenges confronting the Bush administration.

Relations between Japan and China will be important, especially in economic terms. Indeed, Japan is likely to be the principal external engine propelling the Chinese industrial revolution. However, Pan-Asianism centered upon these two major states--desired by some, feared by others--is not in the offing. Both nations will require certain vital ties with nations out of Asia. Important differences in perceived national interests, moreover, will continue.

Finally, the relations between Japan and the Soviet Union are likely to remain relatively low-key in the years ahead. Theoretically, if the USSR can get its economic act together, Japan could play a significant role in Russia's modernization, whether in its European or Siberian sectors. But this may be a prolonged process, and in any case, the lengthy history of conflict and contention between these two nations--

together with such current obstacles as a Northern Territory issue and the massive close-in presence of Soviet military power--inhibit close relations in the foreseeable future.

When this brief survey is considered in its entirety, however, it augurs well for Asia's future. One can afford to be cautiously optimistic. Whereas the United States may face discouraging damage-containment tasks in other areas, in the Pacific-Asian region, it can afford to advance creative, constructive policies based on the prospect that peace and economic growth will be the predominant trends.

Senator CRANSTON. Thank you very much, Bob, for a very, very interesting analysis of the situation.

It is now my pleasure to call on Prof. John Lewis, director of the Stanford Center for International Security and Arms Control.

I would like to note that in introducing John, he has done some remarkable pathbreaking work on the PRC and North Korea, he conducts a great Stanford arms program and, uniquely, he trained all three of the subcommittee staff's members.

John.

STATEMENT OF PROF. JOHN LEWIS, CODIRECTOR OF THE CENTER FOR INTERNATIONAL SECURITY AND ARMS CONTROL, STANFORD UNIVERSITY

Mr. LEWIS. Thank you very much, Senator Cranston. It is a pleasure to have such close friends on your staff and to have worked closely with the Senate and other parts of the Congress in the past.

I am pleased this morning to join this panel, this distinguished group of colleagues, to discuss Asian issues. I am going to follow Bob Scalapino, my friend. And it is going to appear that we have been in collusion with each other and I apologize. Perhaps we can put it to you that we both see the same Asia.

I am going to try in my brief remarks to remind us all of some of the dramatic changes underway. I will be even briefer, because Bob has covered them very eloquently. I am going to relate those changes to the Korea Peninsula, and then talk about some initiatives which may have some bearing on the kinds of proposals that Senator Murkowski and Senator Cranston have made, along with Congressman Levine.

Let me first note that in my judgment—and it is what has been said here over and over, there is an evermore single-minded preoccupation in the Asian-Pacific region with economic modernization, economic reforms, and making money.

There is a downgrading—and I agree here with Bob—a downgrading of ideology. I would emphasize also there is a downgrading of military concerns. There is a belief that even though arms continue to be upgraded by all of the countries in Asia and by the United States in the region that the likelihood of war is receding and is going to continue to recede particularly in acute areas such as Kampuchea, Afghanistan, and perhaps even on the Korean Peninsula. That is one major emphasis, economic.

The second is, there is a new search for relationships that have not been seen as possible in the past. There is a sense that Asians are discovering Asians in a way that is almost unprecedented. And with some notable exceptions, they are downgrading their differences and their view of their past hostilities.

They are searching for new partners. You see, for example, South Koreans going to Vietnam, to North Korea, and to ASEAN in a way that is unprecedented. There is a rapid linkage, in my judgment, of the economies such as the PRC, Hong Kong, and Taiwan economies. They are beginning to have kind of a specialization here in those three economies.

There is a search also for new economic and security frameworks and a sense that we have to develop new kinds of frameworks—the kind that perhaps the Pacific forum that you are proposing, Senator Cranston, might help to create. But these frameworks are not going to be like the past. They have got to have some new elements in them.

That search in my judgment has spawned a lot of debate. What if Gorbachev succeeds? What if he fails? What if the U.S. economy doesn't solve its major problems? What if there is a global depression? These questions are being asked as Asians think about new frameworks in Asia. So, there is a search going on.

The third major dynamic I see is the recasting of the role of the superpowers, not a downgrading—and I will say more about that later—but there is in my judgment a change in the way the superpowers are relating to Asia. The Soviet Union is trying to become a major player in the economy of the region and also in the security relations of the region.

The key challenge ahead for the United States—and I here I perhaps slightly disagree, or at least would put a slightly different cast on what Bob Scalapino talked about in the Soviet-Chinese relationship—is the way the Soviet Union and China will begin to relate to each other after the Gorbachev-Deng Xiaoping meeting in May.

The long-held dream of these two countries is to come together and to work together. It is worthwhile remembering that the Sino-Soviet alliance of the 1950's was flawed fundamentally. It was short lived and it failed. Indeed the two countries are going to present books to each other in May to describe those experiences in order to overcome the earlier problems. It is not that their relationship is going to be threatening, necessarily, but it is going to be different for us and we need to begin to think about that in a new way.

America, of course, is and should be a major actor in this process of change in Asia. It has immense influence. Its economy is still a dominant, vibrant factor in this region. And in my judgment it is necessary in order for the United States to play a major role and to have a continuing sense of what's going on in Asia. We are not relating to the Asia of the sixties or the seventies or even the early 1980's. The Asia that I see is dynamic and moving.

I would particularly relate that dynamic to Korea. What are the consequences of the new Asian developments for Korea? First of all, South Korea, the Republic of Korea, is a force in this new

Asian dynamic. It is an extraordinary country in the way in the last 18 months it has moved toward democracy. And even though there are going to be problems this spring both in the political sector and in the economic sector in South Korea, all of the omens are very good and there is likely to be a major forward thrust of the Korean economy and democracy. This process has not been fully anticipated.

As the Koreans examine their role after the Olympics and after the developments in their democracy, they are becoming more independent. They are reaching out. They are less anti-Communist. They are actively pursuing a policy that they have had for a long time, the policy of north-politic, to reach out to the socialist world, particularly to the Soviet Union, China, and now North Korea.

These changes have sparked a responsive chord in the Soviet Union. Moscow has backed Hungary's diplomatic openings to Seoul. The Soviet Union and a number of socialist countries are opening up or moving to open up trade offices in Seoul. President Rho Tae Woo and President Gorbachev have been in direct correspondence with each other. They have written each other letters talking about how they are going to have a new relationship.

Meanwhile, Moscow has also been trying to maintain its ties with the North Koreans and has provided them with additional military aid, with 12 Mig-29's, with additional S-25's and with some SAM surface-to-air missiles. So, it is a mixed picture. Moscow is relating to both Koreas in a new and more direct and more active way.

The Chinese are also responding to what is going on in South Korea. They are more tentative and are following the Soviet lead. The Chinese-North Korean relationship has gone through a troublesome period for Beijing. But even though it is a sensitive issue and even though the Chinese don't see themselves as having a kind of carrot such as military aid that they can give to the North Koreans, they nevertheless are making major moves toward South Korea—political moves, as well as economic contacts. This is not just an economic relationship.

All of this movement has had an immense impact on North Korea. The North Koreans see themselves caught in a squeeze and off balance by the fast-moving shifts with their allies. They have responded in the first instance, in my judgment, by seeking new relations with the United States. They would like congressional delegations to come to North Korea. They would like business contacts. They would like cultural and tourist visits. There are already tourists, mostly Korean-Americans, who are going from the bay area and from the Los Angeles area to North Korea.

The North Koreans are facing an increasing challenge—an economic, military, and political challenge—from South Korea. South Korea is twice as large as the north in its population, its economy several more times as large. And the North Korean response, in the very immediate past, has been to try to seek new relations with the south. The most dramatic of the moves has been an opening that has allowed the honorary chairman of Hyundai Business Group, Mr. Chung Ju Yung, to go to North Korea to begin joint ventures at Mount Kumgang and to begin to upgrade the port of Wonson.

All of this has caused the North Koreans to begin to rethink relations with the capitalist world. There is a major debate opening up in North Korea about capitalism. And this has even now come out in pamphlets by Mr. Kim Il Sung's son, Mr. Kim Jong Il.

So, there is a changing society in the north. I have witnessed that changing society myself having been there three times to North Korea in the last 18 months. If you look at this land as a series of snapshots over those 18 months, you do see signs of a political transition underway. There are many unknowns and there are serious debates. Pyongyang held a series of emergency meetings in December to think about the future of Korea, about relations with the United States, and most especially about domestic reforms.

There is a massive peacetime construction underway in North Korea. It is a poor country, an extraordinarily poor country, but there is a substantial growth domestically and in trade. The North Koreans would like to move into the international economy.

In sum, there is an opening up going on in North Korea. The North Koreans were prepared, if the joint games had been arranged at the Olympics between North Korea and South Korea, to host 200,000 visitors in North Korea, in a country of 18 million people. They are now preparing for the July World Youth Festival to host 30,000 people. So, they are beginning to open their country.

This prospect for change, small as it may be and as tenuous as it may be, has led a number of us at Stanford and other places throughout the United States to begin to work with the United States Government and with the South Korean Government in order to consider ideas that might take advantage of these changes and to see if the north might move it forward a little bit in a cooperative way.

We developed proposals with various specialists. Then in a conference in Moscow we worked out a set of joint proposals with the Soviets which as their title says aimed, "To strengthen security and develop cooperation on the Korean Peninsula." I have submitted a copy of the proposals to the committee.

These proposals include—and I won't do more than just highlight them here—steps to demilitarize, it sounds odd, but to demilitarize the demilitarized zone—DMZ—one of the most militarized zones in the world. In order to do that, you have to reconstitute the mechanisms for inspection, the mechanisms for control. The North Koreans and the South Koreans both are willing to talk about how to pull back from the DMZ, to begin to lessen the tensions on the Korean Peninsula.

The proposals call for the negotiation of risk reduction measures comparable to those that have been negotiated in Europe at Stockholm. They include confidence-building and security-building measures such as the notification of troop movements, putting observers in various kinds of exercises, having forecasts of exercises so they don't come by surprise, and developing the inspection mechanisms for all these measures.

Some of these measures have penetrated enough into North Korean thinking that they appeared in their November 7 proposals on arms control.

We called finally for study of mutual and verifiable arms reductions, and particularly for a study which the North Koreans and the South Koreans have never faced up to: to have inspection of conventional forces, how to count what troops would be involved.

Basically, these proposals are consistent with President Roh Tae Woo's various proposals in July and at the United Nations in September. They have been very positively received in a number of countries throughout the region, and it is our role at Stanford to continue to think about these proposals in a constructive way.

All of this suggests possibilities for new initiatives in United States policy, both toward Korea and toward the region. I believe we, in the first instance, should support South Korean moves toward the north. The South Koreans are becoming active. Northpolitic is the south's political line designed to increase the possibilities for peace on the peninsula.

We should also be sensitive to calls in the Republic of Korea, in South Korea, for greater autonomy for the South Korean component forces under the Combined Forces Command structure. The South Koreans are beginning to show independence. As they begin to move, we ought to be sensitive to their calls for movement.

Senator CRANSTON. John, you are giving a fascinating and very constructive analysis but you better give us a summary. You have run out of time.

Mr. LEWIS. What I am suggesting, Senator, is that the United States has some major opportunities here, and I am pleased to have a chance to discuss them with you.

Thank you.

Senator CRANSTON. Thank you very, very much. A very, very interesting analysis from John's point of view.

We now go to Paul Gibson, president of INTERACT and representing Pacific Basin Economic Council. Paul has given great leadership on trade matters and we are delighted to have you here.

STATEMENT OF PAUL R. GIBSON, PRESIDENT OF INTERACT, REPRESENTING PACIFIC BASIN ECONOMIC COUNCIL

Mr. GIBSON. Thank you, Senator, I appreciate being here this morning.

I would like to comment this morning in a dual capacity as you cited, first as the elected U.S. vice chairman for government liaison for the Pacific Basin Economic Council, which we call PBEC, which has over 850 international businessmen from 17 Pacific Basin countries as members, and second, as the president of Interact, a private company which specializes in international trade and investment development.

Both organizations are dedicated completely to the two-way expansion of international trade and investment, and also to fighting all protectionism. But by opposing protectionism, we certainly do not mean that we are against punishing countries or companies that carry out unfair or illegal trading practices, such as the Japanese—Toshiba selling secrets to the Russians or the Japanese who are dumping semiconductors in the United States or other markets, or other Pacific Basin countries who do not have the proper legislation to protect our intellectual property.

I would like to restrict my comments, due to time, to three issues: The U.S. trade bill, the Marshall plan initiative for the Philippines, and the recent request by the Peoples Republic of China and the Soviet Union to join the Pacific Basin Economic Council.

First, we believe that the U.S. trade bill is a U.S. export vehicle, and it has our full support, including the 301 section of the bill to force other countries to treat U.S. exports of trade and investment, particularly equipment, agriculture, and services, fairly.

Having said this, again, we are absolutely against tariffs, boycotts, and sanctions, and we believe the super 301 should be used narrowly and cease automatically when reasons for its use are no longer necessary. We also strongly recommend that negotiations under the U.S. trade bill be for specific goals and items and not just call for open markets, particularly in countries like Japan, where their traditional markets are not even open to many or most of their domestic companies. So the term "open market" means nothing in that culture.

In other words, trade negotiations should follow concepts that we use for arms control, or even for aircraft routes, where the technical aspects and experts have the full support of the political might of the United States. We should use political means to achieve our national economic business goals in the international arena. In my view, Japan is already using this political system.

As an example, for many years, the Japanese Vice Minister of MITI, Ministry for International Industry and Trade, and adviser to both MITI and the Japanese Federation of Economic Organizations. But now we see the senior liaison for Japan, Inc. is Ambassador Ogarwara, who has completed 5 years as Ambassador to the United States, and who recently retired to become adviser to the Ministry of Foreign Affairs and the Japanese Federation of Economic Operations.

In other words, the Japanese have already switched from using MITI as its liaison to the political side, the Ministry of Foreign Affairs, to achieve and, I guess, in some cases, to defend its economic goals. I think we can learn from that.

Second, Roberto Villanueva, perhaps the most respected Philippine businessman, and the Philippine chairman of PBEC, has just been appointed to head the Philippine Marshall plan initiative. We fully support this Marshall plan concept. We strongly recommend, however, that the Philippines follow the original Marshall plan concept where the European countries developed their own economic plan and costs for economic recovery; and, then, the United States, after approving these plans, advanced the funds to carry them out. We should not just give the Philippines AID funds without receiving and approving a specific plan of why and how they should be spent and then monitor the spending of these funds very carefully.

We further recommend that we don't give any money to this Marshall plan initiative unless there is a reasonable consortium of donors from as many countries as possible, and specifically including the four NIC's of Asia—Taiwan, Korea, Hong Kong, and Singapore. They should all come to the party.

Third, our PBEC membership, including the Chinese member in Taipei, has recently voted unanimously to endorse the request of the Peoples Republic of China to join PBEC. We are still negotiating over the exact titles or names of the two Chinese members, but we feel this will be resolved in the very near future.

Even more recently, in the last 30 days, the Soviet Union has formally requested membership in PBEC. And the PBEC executive committee, which just met this week, has agreed to bring this, with its affirmative recommendation, to the membership for a vote in May 1989 at our annual meeting. And I predict that the vote will also be unanimous to accept the Soviet Union to become a member of PBEC, a strictly business organization.

Now, one of our rules with all of our country members is that we don't care who pays the individual's salary, as long as that individual is serving in a business function. In other words, he has to be the head of a bank or head of a manufacturing entity, or head of a steelmill, or what have you. The fact that this entity is owned by the government is irrelevant. But it cannot be a government official serving in a government official capacity.

Senator Cranston, this morning, advised us that he plans to introduce legislation to establish a Pacific Basin Forum. I can say that we, at PBEC, strongly support this concept. However, we also strongly recommend that this forum concentrate on long-term issues and their solutions and not just add another forum focusing on day-to-day problems.

For example, let's agree with the Japanese that our relationship should be 20 years from now? Then, come backward to 10 years, to 5 years, and maybe to 2 years, and then work toward those goals, rather than concentrating on problems of today. We have plenty of people who are concentrating on today's problems.

Professor Scalapino mentioned, I think, a possibility of having a Japan-United States bilateral. We have had several of those called "Wiseman's Committees." In my view, they have all failed because, again, they concentrate on day-by-day problems. We've got to get them out farther and say: "Where do we want to be in the future, 20, 10, 5, and 2 years?" And, when we agree on that, we can come backward and figure out how to get there.

I would like to make one last point because, it seems to me, every time that a group gets together we talk about the foreigners taking over the United States, or buying America. We in PBEC are strongly supporting something we call strategic alliances. We think that we should have foreign investment in the United States, and we welcome it from all sources. But we think it would be much more helpful to have these come in, not as buying American companies or taking over American companies or even the traditional joint venture, 50–50.

We think strategic alliances should be set up where there is shared ownership, shared management, shared research and development, shared manufacturing, shared marketing and even shared markets, preferably with the foreign investor remaining in a minority position, both in the equity side and on the board of directors and in the management.

Thank you very much.

Senator **Cranston**. Thank you a great deal.

I appreciate hearing your interest in the forum I have suggested, and I totally agree with you on the long-range view. That is an interesting idea; first, it would be 20 years from now, and then start back, how do we get there?

I am now delighted to call on Tom Perkins of Kleiner Perkins. Tom has a unique distinction. He is the only individual who has ever been, as he is now, chairman of three companies listed on the New York Stock Exchange.

Tom.

STATEMENT OF TOM PERKINS, GENERAL PARTNER, KLEINER PERKINS CAWFIELD & BYERS

Mr. PERKINS. I am obviously going to speak to you as a businessman, Senator Cranston, and I would like to focus my remarks rather specifically on the economic war with Japan and the impact on our high-technology industries.

For many, many years, we have been engaged in a national economic war with Japan. And the techniques used by Japan, Inc. are well known, but, just to comment on a few of them:

That nation has enjoyed very low-cost capital and guaranteed capital for its industries. Through the ministry of MITI, they have essentially legalized monopolies and cartels for their own national purposes. They have closed their own markets to foreign competitors while their nascent industries were developed, and then, after having been developed, they have, in many cases, dumped those products into the overseas markets; that is, the Japanese consumers are paying significantly higher prices than the international consumers. And there has been a history of the purchase of American and European technology and, in some unfortunate cases, the outright theft of such technology.

Now, the question is: Who is winning the war, this economic war, as it is focused on American high-technology? I think the answer is rather clear that Japan is winning. They have not yet completely won, but the situation is quite clear.

If you happen to be in Times Square sometime, look around at the advertisements on all the electronic billboards in Times Square. All of them are Japanese, every one, with the exception of the old Camel Cigarette ad, and it will probably be outlawed, and there is one little ad for Pepsi Cola. The rest are entirely Japanese, just to remind you of how well they have done.

Looking particularly at the semiconductor industry, this is presently a greatly endangered industry in the United States. It is not because American companies don't know how to compete. It is because of manipulation and a strategy in Tokyo that has made it virtually impossible for our industries to successfully compete.

The symptoms of the decline of this industry are the disappearance of the capital equipment manufacturers for semiconductor equipment. If a nation loses its machine tool business, it begins to lose its competitive advantages in many other industries. So, when a nation loses its semiconductor capital equipment manufacturers, the locus of the technology has moved, in fact, overseas to Japan.

This has major impact. A dozen years ago we started a company called Tandem Computers, a very successful company. The technology for Tandem Computers was essentially 100 percent American. We were able to "just walk down the street" and talk to other manufacturers and put together our products. But if you look at the latest computer introduction by the brilliant Steve Jobs, who first founded Apple—his new company is called NEXT Computer—I believe I am correct in saying that 85 to 90 percent of that product is, in fact, manufactured in Japan.

Well, what can we do about it? I think the solutions are obvious. We can institute a series of programs. We can emulate MITI. We can have low-cost loans. We can encourage cooperation among our industries without antitrust fears. We can create more Semitechs, which is a consortium of American manufacturers who put up $100 million, with another $100 million being provided by the government. Presently, it isn't accomplishing much of anything because it is so severely porkbarreled by all the local constituencies in the various states that are trying to get access to that money. It is not likely to accomplish much.

And we can, of course, enforce the trade laws. In my view, we can and should do most of these things. But, I don't think it will be terribly effective, however, in turning things around, because I think we have essentially a competition between two different economic systems.

If you compare the United States system with the Russian, it is perfectly clear that our system is superior. But when you compare our system with the Japanese, I am afraid it is perfectly clear that their system is superior, at least in the international trade area, because they essentially have a form of state of capitalism; we have a form of, I would say, market capitalism or populist capitalism.

For example, we are amused and put up with the shenanigans of the Donald Trumps of our era, but we, on the other hand, split up major corporations, such as AT&T, when they achieve a sort of dominance that is, in fact, encouraged in Japan. I think that, rather than putting pressure on Tokyo, Senator Cranston, we have to look to Washington to see what can be done to strengthen our system in this international war—and it is a war.

I think that for a capitalist society to make no distinctions whatsoever between ordinary income and capital gains is ridiculous; to have no incentives for savings; to have a double taxation of the corporate dividend, which has led to the total leverage buyout phenomenon—in which, incidentally, the Japanese compete very aggressively. All of these things have greatly weakened our system and can easily be changed, but it takes an understanding of the situation and political will to make it happen.

So, if we don't do this, how bad will it be? Curiously, I don't think it is going to be that bad. Because we are in the unusual situation of being like Jack Spratt and his wife. How does the poem go? "Jack Spratt could eat no fat, his wife could eat no lean." We are sort of married to the Japanese: they can eat no fat; we are rather like the fat wife ourselves. We have sort of a living arrangement with a nation of compulsive overachievers, workaholics, who are flowing enormous amounts of capital into out own economy. It is not all bad. So, rather than increasing the barriers or restricting the interaction, I would encourage it; but, at the same time, I think we need to strengthen our own fundamentals so that, by the turn of the century, we are not merely an economic vassal of Japan.

Thank you.

Senator **Cranston**. Thank you very much, Tom, for a very, very interesting and helpful testimony.

We now go to Greg Mignano, executive director for California Trade Commission.

STATEMENT OF GREGORY MIGNANO, EXECUTIVE DIRECTOR, CALIFORNIA TRADE COMMISSION

Mr. **Mignano**. Thank you, Mr. Chairman, and members of the panel.

I submitted a rather lengthy piece of testimony for the record, with several appendixes. I will summarize in respect to one issue, and that is: the Government as a reluctant partner in the development of U.S. export competitiveness. I refer, of course, to the Federal Government here.

Much has been made of this issue of competitiveness and protectionism, and all the various causes for our lack of competitiveness. The catch word is "level playing field." I have great difficulty understanding that concept. Recalling my studies not at one of California's great universities, but a small college back East, the State University of New York, it was 2,000 years ago that the Greeks discovered that the Earth was round, not flat. And, therefore, it has always been difficult for me to envision a level, a truly level playing field. I think the issue really is one of the number of players on the field.

We have found that, when an American company is competing for a contract against a foreign firm, it is the American company up against the foreign company, up against the foreign government. It is the French Government, and the French company, the British Government and the British company; but it is always just the American company on the other side of the field.

In the area of trade policy and the area of the elimination of trade barriers and the elimination of domestic disincentives to trade, I do think that we are at the point now where through aggressive negotiations, through leadership, by yourself, Mr. Chairman, Congress, and others, we have begun to roll back barriers, both domestic and foreign. I have included an appendix of trade disputes that relate to California firms. And I would say that we have noted remarkable progress in the rollback of barriers to the point today where our business executives are finding they are actually doing more business with their customers and not their lawyers. And I think this is very healthy for U.S. competitiveness.

On the other hand, we do have to recognize that, even with the crowbar that Mrs. Hill says she is going to use, just so much can be done to assure market access by our U.S. Trade Representative and by our negotiators. Much more needs to be done by the other agencies of Government, particularly the U.S. Department of Commerce.

We have to turn our attention today to gearing up in terms of marketing. The U.S. Department of Commerce, as noted by both Congressman Levine and Mr. Ho in their remarks, has been an almost reluctant partner. It seems they have been more responsive to OMB than to the export community. We have seen a great diminution of staffing, or resources. We have seen money poured into a concept called "Export Now," which has billboards all over the country telling people to call a certain hotline. They receive a recorded message. There is no staff to help them once they have determined that they do, indeed, want to export.

We need more resources, and I am not calling for more money. I think that a modest investment of public funds—and I will give you a couple of examples in a second—well managed, well targeted, can pay off nicely. But I think we need a reprogramming and reallocation of funds in the U.S. Department of Commerce, in SBA, in Eximbank. We are just not seeing the return on the investment there. The U.S. Export-Import Bank, as was mentioned earlier, has no field offices. There are many small business users who need financing to sell to Asia, to Europe, wherever the region, wherever the opportunity. And, until we get that partnership with Government, U.S. industry is not going to be able to compete against a field on which they are faced with two other players.

Let me, if I might, give you a couple of examples of the way that we, in California, have found that this modest investment of public funds can give very significant return.

Our export finance program was created 4 years ago to help small- to medium-sized exporters get the financing they need to complete an export transaction. It is particularly critical at a time when commercial banks are reluctant to finance small transactions involving new exporting, or hardly exporting companies. Well, these loan guarantees that we have issued, about 135—and I should point out that we actually issue more working capital guarantees in a year than Eximbank does—backed by a $5 million reserve fund, have supported over $100 million in export sales in 4 years.

There is a need, there is a gap. The State is filling it and it is not just California. Other States are doing it, as well. In fact, total State spending on export development is rapidly approaching total U.S. and foreign commercial service spending for the entire Nation.

Our office of export development has a very targeted trade shows program. We do about 24 trade shows a year in major spots in the world. We promote California's high-technology products: telecommunication, computers, electronics components, medical and scientific equipment, and the like.

We just had Chico State University do a survey of that program. We had 300 users in 4 years. Three hundred companies, oftentimes whose arms we had to twist to come because there is a reluctance on the part of small business to get into international trade. We had them come overseas with us. Fully 75 percent found the experience very rewarding. And, in their accounting, actual sales generated over that period of time—on a State investment, by the way, of less than $3 million—total export sales generated was $66 million.

There is a need, there is a market and there is a role for Government in targeted programming.

So, I would, Mr. Chairman, urge that some attention be turned in Washington toward the marketing units of our international trade administration. We have to, of course, support U.S. Trade Representative in their efforts to continue to roll back barriers to trade; but California business, U.S. business, competing against command and mixed economies do require a willing partner in Government. And, Mr. Chairman, I would also like to say that the World Trade Commission supports your effort to put a northern California export licensing office, as it is most desirable and necessary, indeed. And the southern California office workload bears out that need.

Senator MURKOWSKI. Thank you very much.

Senator CRANSTON. Without objection, your statement will be included in the record.

[The prepared statement of Mr. Mignano follows:]

PREPARED STATEMENT OF MR. MIGNANO

Mr. Chairman and members of the Asia and Pacific Affairs Subcommittee: My name is Gregory Mignano and I am the executive director of the California State World Trade Commission. I appreciate this opportunity to testify on California's trade with Asian nations. I believe it will be helpful if I begin my remarks by offering background on the World Trade Commission.

The World Trade Commission is the export-development arm of the state of California. An alliance of the state's business leaders and highest ranking government officials, the Commission promotes policies and programs that improve California's ability to export goods and services.

The Commission's four-part strategy to increase exports includes research and information services, marketing assistance, export finance, and advocacy before state, federal, and international policymakers. These functions are performed by three Commission divisions: the Export Finance Office, with offices in Los Angeles and San Francisco, helps make financing more easily available to small and medium-sized California firms; the Office of Export Development, located in Long Beach, organizes California's participation in the world's leading international trade exhibitions; and the Office of Policy & Research, headquartered in Sacramento with an office in Washington, D.C., shapes the state's position on many major trade policy matters, and disseminates trade information.

Today, with a view toward Asia, I would like to share my observations on California's recent performance in international trade. In 1987, 45 percent of all California exports went to Pacific Rim countries east of the Date Line, with Japan as our single largest customer.

As the third leading economic power in the region behind the United States and Japan, California has been an active and responsible Pacific neighbor. From the state's Tokyo office to the Governor's Pacific Rim Roundtable, California has assumed a leadership role in economic issues promoting free trade, open markets and policies encouraging economic development. Attached as "Appendix A" is a list of Commission initiatives dealing with the Pacific Rim.

Mr. Chairman, during these two days of hearings, several of California's leading scholars and business executives have described the many challenges and opportunities in the dynamic economies of Asia/Pacific. Wherever the region and whatever the circumstance, given a partnership between industry and government, U.S. exporters will rise to the challenge and seize the opportunity. However, many exporters in this state view the federal government as a reluctant partner.

Comparisons with the expenditures of other nations illustrate the extent of our lack of national purpose in export promotion. A report by the House Foreign Affairs Committee has established that our export promotion expenditures fall significantly short of the programs of all our major trading partners in terms of spending per capita and per $1000 GNP. For example, in 1987 the U.S. spent $1.20 per capita and $.06 per $1000 GNP, while Canada spent $21.44 and $1.48 respectively.1

We in California have found that a modest investment of public funds yields very significant returns. Our Export Finance Program was created in 1985 to help small and medium-sized exporters get the financing they need to complete an export transaction. This program is especially critical at a time when commercial banks are reluctant to finance small transactions involving new-to-export companies. Our loan guarantees, backed by a $5 million reserve fund, have supported over $100 million in export sales.

Our Office of Export Development was created to facilitate the participation by small and medium-sized, new-to-export California companies in the world's leading trade shows. Given the high cost of attending trade shows for individual companies, the World Trade Commission has developed a program

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1. U.S. House of Representatives, Committee on Foreign Affairs, "Oversight of the U.S. and Foreign Commercial Service," June 19, 1988, p. 5.

whereby participation is made possible at greatly reduced cost through shared exhibit space, shared interpreters, pre-arranged travel, and freight consolidation. A recent independent survey of over 300 firms that have taken part in Commission shared-booths reports that these companies have made more than $66 million in export sales as a result.

Our Office of Policy & Research maintains active involvement in ongoing issues of international importance, such as the Uruguay Round of GATT negotiations, the Omnibus Trade Bill, and the U.S.-Canada Free Trade Agreement. In fact, California involvement has helped to speed along resolution of various trade disputes, including the beef-citrus dispute with Japan. Within the state, we have conducted numerous seminars, and have identified trade barriers and emerging opportunities through various reports on issues in international trade.

In 1987, we opened California Trade and Investment Offices in Tokyo and London. In their first two years of operation, the offices have been successful in developing new leads for California exporters by organizing large-scale promotional efforts. Yesterday, the Governor opened a new office in Mexico City. Next year, California will establish two satellite offices to pursue more vigorously trade opportunities on the European continent and in Southeast Asia.

From a modest $500,000 investment in 1983, California's budgetary commitment to expanding exports has grown to $10 million annually. We have been able to quantify the value of our trade assistance, and the lesson is clear: Trade programs can pay for themselves through job creation, economic growth, and increased revenues for the Treasury. Washington's pledge to fully support international trade would be a sound investment. In 1987, this state's $27.8 billion in exports employed nearly 700,000 Californians, contributing billions in profits and tax revenues to the California economy. Many thousands more were employed in the handling of imports. For a full accounting of California's international trade, I am attaching a statistical summary as "Appendix B."

After the 1988 presidential elections, the Commission prepared a report for the president-elect reviewing federal programs which support U.S. exports. This report, "Federal and State Cooperation in Promoting United States Exports: A View from California," is attached as "Appendix C." Throughout this document we emphasize that well-managed, government-sponsored trade promotion programs are revenue enhancers and job creators.

At this critical time, the federal government should be making export promotion a top priority. Instead, it is sending mixed signals to the business community. On the one hand, the Department of Commerce poured resources into a promotional program called "Export Now" to urge companies to plunge into the international marketplace. On the other hand, the U.S. and Foreign Commercial Service (US&FCS), which is mandated to help new companies successfully handle the challenges of selling their products overseas, is being rendered ineffective because of diminished resources.

Cutbacks in federal trade programs are affecting Commission programs in such a way that our staff is increasingly called upon to cover the gap where federal programs have retreated. One of our major concerns is the decline in staffing levels and resources in the San Francisco, Los Angeles and San Diego district offices of the U.S. Commercial Service. Currently, these offices are severely understaffed. As a result, the office directors and trade specialists have been answering phones, typing letters and staffing the library on a rotational basis instead of providing more export counseling, holding seminars and expanding their community outreach. This is having a major impact on the district offices' ability to fulfill their current mandate, and is making it impossible to handle the increased demand for their services resulting from expanded export opportunities for U.S. companies.

Turning to the foreign side of the Commercial Service, staffing cutbacks are affecting the ability of the overseas posts to provide key support services to American firms. We are also concerned that other factors, such as frequent rotation and lack of support staff, are causing the effectiveness of the Foreign Commercial Service to be uneven.

On a larger policy issue related to the Foreign Commercial Service, whatever the level of support provided overseas, it does not compare to the institutional support that other countries provide. Using Great Britain as an example, government and industry work together to obtain major foreign contracts for Britain and then decide how to divide up the business. There is a commitment from the Prime Minister on down to the local foreign commercial officer to help British firms expand their business overseas. We should examine ways to improve our approach to obtaining business -- improvements which could be made through changes in attitudes and policy, not just increases in budget.

Providing assistance to exporters on export licensing matters is another issue of concern. As this subcommittee knows, the Export Administration Act established a complex set of rules for exporters to follow when selling high technology or other sensitive products. Until October 1987, all export licensing activities were administered by the International Trade Administration. As mandated by Congress, the Bureau of Export Administration (BXA) was created to assume these responsibilities.[6]

Mr. Chairman, thanks to your leadership, BXA opened a licensing assistance office in Orange County. This office provides an important range of services for this high-growth industry. We support your efforts to open a second office in Northern California.

Turning to another matter, the continuing unwillingness of banks to support the overseas sales of small and medium-sized firms means billions in lost exports annually. There are two reasons for the reluctance of banks to finance export loans: the transactional risk assessed by banks, and the lack of interest in the value of the amount financed.

The U.S. Export-Import Bank (Eximbank) has a "delegated authority" program whereby designated banks can issue loans of up to $300,000, 90 percent of which is guaranteed by the Eximbank, without express Eximbank approval. However, $300,000 does not go a long way, and has not been able to gain the interest of most banks which qualify for Eximbank programs. Increasing the dollar authority would attract more banks to the program. Delegated authority should also be extended to qualified state agencies. In this way, states could assist in larger transactions, greater flexibility would be achieved in provision of export financing, and a smoother division of labor would exist between state and federal programs.

Mr. Chairman, this subcommittee asked me to speak about the challenges of exporting to the Pacific Rim. Attached to this testimony as "Appendix D" is a list of U.S.-Asia trade disputes of particular interest to California. As you can see, good progress has been made in eliminating many of the barriers to our agricultural and manufactured exports.

The Office of the U.S. Trade Representative should be commended for the outstanding achievements made in striking down foreign barriers to our exports. Yet, even with a crowbar, there is just so much the U.S. Trade Representative can do to assure foreign market access for U.S. exporters.

More than 2000 years ago, Eratosthenes conducted experiments in Alexandria and Cyrene which proved that the world is not flat, but round. Thus, it is difficult to envision a "level" playing field. Nevertheless, I believe that we can succeed, whatever the condition of the field, with greater diligence and persistence by industry in its marketing efforts, accompanied by a firm and consistent commitment from government.

Thank you.

APPENDIX A

CALIFORNIA INITIATIVES WITH THE PACIFIC RIM

California Office of Trade and Investment, Tokyo: In January 1987, the Governor established a California Office for Trade and Investment in Tokyo to promote California exports and investment in the state throughout Asia. Early this year, the Governor announced plans to open a California satellite office in Southeast Asia.

Pacific Rim Roundtable: In October 1987, the Governor brought together top government officials, business leaders and educators from Pacific Rim nations. For two days, these participants held roundtable discussions on such topics as Pacific Prosperity, Increasing Pacific Trade Opportunities, and Working Together in Education and Culture.

Trade Missions: State officials and members of the Commission travel throughout the Pacific Rim promoting California exports. Last summer, the Governor visited Australia, Hong Kong, the Philippines and South Korea. In early 1988, the state's Director of the Food and Agriculture Department led a mission to Japan, South Korea, Hong Kong and Taiwan.

Trade Shows: Since 1985, when the Commission began taking companies abroad to trade shows, California exporters have participated in 19 trade shows throughout the Pacific Rim. These shows included the HEALTHCARE and SPORTS & LEISURE in Japan, FOOD AMERICA in Taiwan, COMMUNIC ASIA in Singapore, TRADE DAYS in Australia, U.S. PRODUCTS SHOW in Korea, and HOFEX in Hong Kong.

Export Financing: Since its inception in 1985, the Export Finance Program has issued 135 loan guarantees supporting over $100 million in export sales. Of these figures, 48 percent of the guarantees were issued to companies shipping California products to the Pacific Rim, supporting $52 million in export sales.

Policy & Research: The following studies were published by the Commission to assist in establishing California's priorities in the Pacific Rim debate: California Agriculture: Barriers to Trade, Volume 1, Pacific Rim, (June 1986); and Pacific Rim Barriers to California Manufactured Exports, (June 1987).

International Visitor's Office: The International Visitor's Office represents the Governor and the World Trade Commission in receiving foreign dignitaries and delegations on trade-related visits to California. Last year, the Visitor's Office hosted the Japanese Prime Minister, a delegation from ASEAN, and business and government officials from throughout Asia.

APPENDIX B

Highlights of California's Export Trade, 1987

August 1988

California Department of Commerce
Office of Economic Research

Top 40 importers of U.S. goods, 1987

Rank	Country	Value ($M)	%	Cumulative
--	All countries	250,405.9	100.0	
1	Canada	57,354.4	22.9	22.9
2	Japan	28,248.6	11.3	34.2
3	Mexico	14,582.3	5.8	40.0
4	United Kingdom	14,113.8	5.6	45.6
5	West Germany	11,747.7	4.7	50.3
6	Netherlands	8,216.6	3.3	53.6
7	South Korea	8,098.7	3.2	56.9
8	France	7,943.1	3.2	60.0
9	Taiwan	7,412.6	3.0	63.0
10	Belgium & Luxembourg	6,189.4	2.5	65.5
11	Italy	5,529.6	2.2	67.7
12	Australia	5,494.7	2.2	69.9
13	Singapore	4,052.7	1.6	71.5
14	Brazil	4,039.9	1.6	73.1
15	Hong Kong	3,983.1	1.6	74.7
16	Venezuela	3,585.9	1.4	76.1
17	China	3,497.3	1.4	77.5
18	Saudi Arabia	3,373.4	1.3	78.9
19	Switzerland	3,150.8	1.3	80.1
20	Spain	3,148.2	1.3	81.4
21	Israel	3,130.2	1.3	82.6
22	Egypt	2,210.2	0.9	83.5
23	Malaysia	1,896.5	0.8	84.3
24	Sweden	1,893.5	0.8	85.0
25	Ireland	1,810.4	0.7	85.7
26	Philippines	1,599.0	0.6	86.4
27	Thailand	1,544.0	0.6	87.0
28	Turkey	1,482.4	0.6	87.6
29	Soviet Union	1,479.7	0.6	88.2
30	India	1,463.4	0.6	88.8
31	Colombia	1,411.5	0.6	89.3
32	South Africa	1,281.2	0.5	89.8
33	Dominican Republic	1,142.2	0.5	90.3
34	Argentina	1,090.2	0.4	90.7
35	Denmark	892.6	0.4	91.1
36	Norway	841.8	0.3	91.4
37	New Zealand	818.5	0.3	91.8
38	Peru	814.0	0.3	92.1
39	Chile	796.1	0.3	92.4
40	Bahamas	781.8	0.3	92.7

Top 40 importers of California goods, 1987

RANK	Country	Value ($M)	%	Cumulative
--	All countries	27,833.7	100.0	
1	Japan	4,537.0	16.3	16.3
2	Canada	2,597.9	9.3	25.6
3	United Kingdom	1,990.2	7.2	32.8
4	Mexico	1,952.2	7.0	39.8
5	West Germany	1,851.2	6.7	46.4
6	Singapore	1,368.3	4.9	51.4
7	South Korea	1,367.8	4.9	56.3
8	Taiwan	1,290.4	4.6	60.9
9	France	1,181.1	4.2	65.2
10	Malaysia	868.8	3.1	68.3
11	Netherlands	866.8	3.1	71.4
12	Australia	824.4	3.0	74.4
13	Hong Kong	749.3	2.7	77.1
14	Italy	657.3	2.4	79.4
15	Philippines	512.2	1.8	81.3
16	Thailand	459.5	1.7	82.9
17	Sweden	403.9	1.5	84.4
18	Switzerland	388.8	1.4	85.8
19	China	374.9	1.3	87.1
20	Spain	370.8	1.3	88.4
21	Belgium & Luxembourg	298.7	1.1	89.5
22	Saudi Arabia	215.8	0.8	90.3
23	Brazil	207.5	0.7	91.0
24	Ireland	199.0	0.7	91.7
25	India	175.9	0.6	92.4
26	New Zealand	162.3	0.6	93.0
27	Norway	152.2	0.5	93.5
28	Venezuela	129.8	0.5	94.0
29	Denmark	116.5	0.4	94.4
30	Austria	111.7	0.4	94.8
31	Israel	109.0	0.4	95.2
32	Finland	103.3	0.4	95.6
33	South Africa	93.7	0.3	95.9
34	Indonesia	69.4	0.2	96.1
35	Egypt	67.1	0.2	96.4
36	Argentina	66.3	0.2	96.6
37	Soviet Union	47.5	0.2	96.8
38	French Guiana	44.8	0.2	97.0
39	Pakistan	44.6	0.2	97.1
40	Netherlands Antilles	43.0	0.2	97.3

U.S. and California exports by country, all commodities, 1987

	United States			California			Calif as % of US
	$ million	% air	% of total	$ million	% air	% of total	
All countries	250,405.9	28	100.0	27,833.7	60	100.0	11.1
•North America							
Canada	57,354.4	6	22.9	2,597.9	34	9.3	4.5
Canada, grain transit	76.6	0	0.0				
Greenland	3.2	74	0.0	0.1	84	0.0	4.4
St Pierre & Miquelon	0.0	76	0.0				
•Central America							
Belize	71.7	8	0.0	0.6	8	0.0	0.9
Costa Rica	581.7	25	0.2	16.4	50	0.1	2.8
El Salvador	389.8	26	0.2	15.2	34	0.1	3.9
Guatemala	480.3	13	0.2	9.1	48	0.0	1.9
Honduras	417.8	11	0.2	5.2	65	0.0	1.3
Mexico	14,582.2	6	5.8	1,952.2	8	7.0	13.4
Nicaragua	3.4	20	0.0	0.0	100	0.0	1.1
Panama	742.4	17	0.3	40.1	25	0.1	5.4
•Caribbean							
Bahamas	781.8	6	0.3	23.8	11	0.1	3.1
Barbados	132.2	24	0.1	1.0	54	0.0	0.8
Bermuda	260.9	14	0.1	3.6	53	0.0	1.4
Cayman Islands	126.7	8	0.1	0.8	81	0.0	0.7
Cuba	1.3	92	0.0				
Dominican Republic	1,142.2	17	0.5	8.0	32	0.0	0.7
French West Indies	44.3	21	0.0	0.4	72	0.0	1.0
Haiti	459.0	23	0.2	20.8	88	0.1	4.5
Jamaica	601.4	12	0.2	5.1	51	0.0	0.9
Leeward & Windward Is	238.3	15	0.1	4.0	78	0.0	1.7
Netherlands Antilles	507.1	9	0.2	43.0	5	0.2	8.5
Trinidad & Tobago	361.3	20	0.1	35.7	8	0.1	9.9
Turks & Caicos Is	14.6	5	0.0	0.0	50	0.0	0.3
•South America							
Argentina	1,090.2	34	0.4	66.3	60	0.2	6.1
Bolivia	140.2	34	0.1	1.7	26	0.0	1.3
Brazil	4,039.9	35	1.6	207.5	89	0.7	5.1
Chile	796.1	21	0.3	38.4	45	0.1	4.8
Colombia	1,411.5	40	0.6	29.1	74	0.1	2.1
Ecuador	620.7	19	0.2	15.6	53	0.1	2.5
Falkland Islands	5.9	14	0.0	0.7	0	0.0	13.5
French Guiana	124.3	92	0.0	44.8	100	0.2	36.1
Guyana	59.8	7	0.0	0.2	76	0.0	0.4
Paraguay	183.1	58	0.1	1.3	38	0.0	0.7
Peru	814.0	24	0.3	42.1	73	0.2	5.2
Surinam	72.0	11	0.0	0.2	8	0.0	0.4
Uruguay	91.6	37	0.0	3.6	58	0.0	4.0
Venezuela	3,585.9	17	1.4	129.8	53	0.5	3.6
•Western Europe							
Austria	548.7	52	0.2	111.7	44	0.4	20.4
Belgium & Luxembourg	6,189.4	23	2.5	298.7	65	1.1	4.8
Cyprus	65.0	16	0.0	1.9	49	0.0	2.9
Denmark	892.6	44	0.4	116.5	66	0.4	13.1
Finland	514.4	45	0.2	103.3	58	0.4	20.1
France	7,943.1	61	3.2	1,181.1	86	4.2	14.9
Gibraltar	4.0	13	0.0	0.0	100	0.0	0.3
Greece	401.7	30	0.2	25.5	52	0.1	6.4
Iceland	83.6	16	0.0	3.2	65	0.0	3.8
Ireland	1,810.4	68	0.7	199.0	91	0.7	11.0
Italy	5,529.6	43	2.2	657.4	66	2.4	11.9
Malta & Gozo	96.9	55	0.0	3.0	98	0.0	3.2
Netherlands	8,216.6	29	3.3	866.8	60	3.1	10.6
Norway	841.8	50	0.3	152.2	58	0.5	18.1
Portugal	581.2	28	0.2	20.3	58	0.1	3.5
Spain	3,148.2	29	1.3	370.8	36	1.3	11.8
Sweden	1,893.5	49	0.8	403.9	58	1.5	21.3
Switzerland	3,150.8	72	1.3	388.8	75	1.4	12.3

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U.S. and California exports by country, all commodities, 1987

	United States			California			Calif as % of US
	$ million	% air	% of total	$ million	% air	% of total	
Turkey	1,482.4	18	0.6	35.5	59	0.1	2.4
United Kingdom	14,113.8	55	5.6	1,990.2	79	7.2	14.1
West Germany	11,747.7	53	4.7	1,851.2	79	6.7	15.8
•Eastern Europe							
Albania	3.3	1	0.0	0.0	100	0.0	0.5
Bulgaria	88.6	11	0.0	9.2	37	0.0	10.4
Czechoslovakia	47.2	22	0.0	4.3	43	0.0	9.3
East Germany	53.9	22	0.0	4.1	87	0.0	7.7
Hungary	95.2	23	0.0	6.7	70	0.0	7.0
Poland	238.8	9	0.1	11.1	13	0.0	4.7
Romania	192.5	6	0.1	0.6	90	0.0	0.3
Soviet Union	1,479.7	2	0.6	47.5	15	0.2	3.2
Yugoslavia	461.1	25	0.2	24.2	91	0.1	5.3
•Middle East							
Bahrain	204.7	12	0.1	5.3	36	0.0	2.6
Gaza Strip	0.2	6	0.0	0.0	100	0.0	5.9
Iran	54.1	19	0.0	2.9	29	0.0	5.5
Iraq	683.3	15	0.3	6.5	30	0.0	1.0
Israel	3,130.2	45	1.3	109.0	79	0.4	3.5
Jordan	365.0	39	0.1	13.0	77	0.0	3.6
Kuwait	504.5	17	0.2	17.3	48	0.1	3.4
Lebanon	96.6	7	0.0	6.5	14	0.0	6.8
Oman	171.1	39	0.1	4.6	80	0.0	2.7
Qatar	75.6	17	0.0	1.6	41	0.0	2.2
Saudi Arabia	3,373.4	17	1.3	215.8	46	0.8	6.4
Syria	93.2	8	0.0	6.1	11	0.0	6.6
United Arab Emirates	619.0	27	0.2	26.0	47	0.1	4.2
Yemen (Aden)	14.4	12	0.0	0.0	67	0.0	0.4
Yemen (Sana)	116.4	10	0.0	0.4	82	0.0	0.4
•Southeast Asia							
Afghanistan	8.0	8	0.0	0.2	56	0.0	3.2
Bangladesh	193.1	4	0.1	29.8	3	0.1	15.5
Brunei	92.6	23	0.0	4.5	85	0.0	4.9
Burma	7.8	35	0.0	0.9	89	0.0	12.5
Cambodia	0.1	100	0.0	0.0	100	0.0	53.9
India	1,463.4	36	0.6	175.9	59	0.6	12.0
Indonesia	767.2	17	0.3	69.4	44	0.2	9.1
Laos	0.2	8	0.0	0.0	100	0.0	6.4
Macao	5.4	10	0.0	0.0	100	0.0	0.8
Malaysia	1,896.5	79	0.8	868.8	95	3.1	45.8
Nepal	55.5	13	0.0	0.6	47	0.0	1.1
Pakistan	733.1	24	0.3	44.6	52	0.2	6.1
Philippines	1,599.0	49	0.6	512.2	84	1.8	32.0
Singapore	4,052.7	61	1.6	1,368.3	80	4.9	33.8
Southern Asia, nec	4.0	16	0.0	0.0	53	0.0	0.9
Sri Lanka	77.2	17	0.0	10.1	29	0.0	13.1
Thailand	1,544.0	43	0.6	459.5	61	1.7	29.8
Vietnam	23.4	97	0.0	12.0	97	0.0	51.2
•East Asia							
China	3,497.3	18	1.4	374.9	48	1.3	10.7
Hong Kong	3,983.1	42	1.6	749.3	66	2.7	18.8
Japan	28,248.6	32	11.3	4,537.0	58	16.3	16.1
Mongolia	0.8	6	0.0	0.0	100	0.0	1.5
South Korea	8,098.7	27	3.2	1,367.8	63	4.9	16.9
Taiwan	7,412.6	34	3.0	1,290.4	66	4.6	17.4
•Oceania							
Australia	5,494.7	34	2.2	824.4	62	3.0	15.0
French Pacific Is	83.7	21	0.0	40.3	20	0.1	48.1
Marshall Is	22.2	3	0.0	9.5	1	0.0	43.0
Micronesia	21.5	3	0.0	8.7	2	0.0	40.7
New Zealand	818.5	37	0.3	162.3	68	0.6	19.8
Other Pacific Is	15.8	18	0.0	1.9	24	0.0	12.2
Palau	4.8	3	0.0	1.9	1	0.0	40.8

(CONTINUED)

U.S. and California exports by country, all commodities, 1987

	United States			California			Calif as % of US
	$ million	% air	% of total	$ million	% air	% of total	
Papua New Guinea	50.8	22	0.0	20.8	12	0.1	41.0
Southern Pacific Is	10.7	45	0.0	0.5	68	0.0	5.5
Western Samoa	2.6	4	0.0	0.5	4	0.0	19.2
•North Africa							
Algeria	426.2	5	0.2	4.9	64	0.0	1.2
Egypt	2,210.2	13	0.9	67.1	22	0.2	3.0
Libya	0.1	100	0.0				
Morocco	382.8	8	0.2	4.4	29	0.0	1.1
Sudan	152.2	5	0.1	0.8	65	0.0	0.6
Tunisia	119.2	13	0.0	5.4	8	0.0	4.6
•Western Africa							
Angola	94.5	18	0.0	0.3	84	0.0	0.4
Benin	18.0	3	0.0	0.4	58	0.0	2.7
Burkina	10.2	17	0.0	0.0	85	0.0	0.6
Burundi	1.6	9	0.0	0.0	59	0.0	0.8
Camroon	47.1	10	0.0	0.6	45	0.0	1.4
Central African Rep	1.6	10	0.0	0.0	100	0.0	1.9
Chad	14.0	54	0.0	0.0	100	0.0	0.1
Congo	9.2	57	0.0	0.0	62	0.0	0.3
Equatorial Guinea	0.0	40	0.0				
Gabon	52.4	29	0.0	0.6	53	0.0	1.3
Ghana	114.6	3	0.0	0.6	42	0.0	0.6
Guinea	35.2	1	0.0	0.0	30	0.0	0.2
Ivory Coast	82.1	12	0.0	1.1	69	0.0	1.4
Liberia	70.0	6	0.0	0.8	27	0.0	1.2
Mali	10.2	13	0.0	0.1	97	0.0	1.1
Mauritania	8.2	13	0.0	0.0	100	0.0	0.1
Niger	3.6	37	0.0				
Nigeria	295.1	17	0.1	4.3	42	0.0	1.5
Rwanda	4.3	6	0.0	0.0	100	0.0	0.2
Senegal	49.1	8	0.0	2.6	4	0.0	5.5
Sierra Leone	26.2	6	0.0	8.2	0	0.0	31.3
St. Helena	0.0	0	0.0				
The Gambia	11.9	8	0.0	0.0	100	0.0	0.3
Togo	19.5	11	0.0	0.5	2	0.0	2.9
Western Africa, nec	24.3	26	0.0	0.3	35	0.0	1.6
Zaire	103.4	7	0.0	0.6	56	0.0	0.6
•Eastern Africa							
British Indian Ocean	0.0	0	0.0				
Comoros	1.5	4	0.0				
Djibouti	3.8	13	0.0	0.1	75	0.0	2.8
Ethiopia	136.4	19	0.1	2.5	96	0.0	1.9
Kenya	95.0	18	0.0	3.6	41	0.0	3.9
Madagascar	18.3	7	0.0	0.0	100	0.0	0.1
Mauritius	26.0	46	0.0	0.2	49	0.0	1.1
Mozambique	50.3	5	0.0	0.9	26	0.0	1.9
Seychelles	0.9	57	0.0	0.2	86	0.0	22.0
Somalia	43.1	9	0.0	0.2	16	0.0	0.6
Tanzania	34.8	10	0.0	0.9	39	0.0	2.6
Uganda	18.6	4	0.0	1.8	4	0.0	10.0
•Southern Africa							
Botswana	28.8	22	0.0	0.6	4	0.0	2.4
French Indian Ocean	3.4	17	0.0	0.2	31	0.0	6.8
Lesotho	6.8	3	0.0	0.0	100	0.0	0.1
Malawi	4.8	24	0.0	0.0	48	0.0	1.8
Namibia	1.3	22	0.0	0.0	84	0.0	0.8
South Africa	1,281.2	37	0.5	93.7	78	0.3	7.3
Swaziland	5.7	15	0.0	0.0	56	0.0	1.3
Zambia	47.4	17	0.0	0.6	96	0.0	1.3
Zimbabwe	75.4	21	0.0	1.6	68	0.0	2.3

U.S. and California exports, selected countries, by commodity, 1987

All countries	United States		California		Calif as % of US
	$ million	% total	$ million	% total	
All commodities	250,405.95	100.0	27,833.71	100.0	11.1
Crop products	16,877.15	6.7	1,308.00	4.7	7.8
Meat, animal products	859.98	0.3	69.42	0.2	8.1
Forest products	173.07	0.1	20.09	0.1	11.6
Fish products, furs	43.56	0.0	8.78	0.0	20.2
Metallic minerals	691.18	0.3	78.13	0.3	11.3
Anthracite	56.72	0.0	0.02	0.0	0.0
Coal, lignite	3,311.17	1.3	1.36	0.0	0.0
Petroleum, natural gas	270.64	0.1	0.02	0.0	0.0
Nonmetallic minerals	978.60	0.4	75.01	0.3	7.7
Food and kindred products	12,654.04	5.1	1,242.01	4.5	9.8
Tobacco manufactures	2,315.69	0.9	1.67	0.0	0.1
Textile mill products	1,968.90	0.8	48.57	0.2	2.5
Apparel, textile products	1,561.85	0.6	99.38	0.4	6.4
Lumber, wood products	3,982.57	1.6	210.57	0.8	5.3
Furniture and fixtures	562.78	0.2	48.28	0.2	8.6
Paper and allied products	5,727.44	2.3	245.39	0.9	4.3
Printed matter	1,545.27	0.6	108.34	0.4	7.0
Chemicals, allied products	26,352.97	10.5	1,121.24	4.0	4.3
Petroleum and coal products	4,585.87	1.8	949.25	3.4	20.7
Rubber, plastic products	3,756.94	1.5	301.43	1.1	8.0
Leather, leather products	726.52	0.3	45.27	0.2	6.2
Stone, clay, glass products	2,096.28	0.8	115.25	0.4	5.5
Primary metal products	6,091.69	2.4	363.21	1.3	6.0
Fabricated metal products	6,318.02	2.5	463.34	1.7	7.3
Machinery, except electrical	42,973.62	17.2	6,963.48	25.0	16.2
Electrical, electronic equipment	26,536.44	10.6	6,583.99	23.7	24.8
Transportation equipment	43,136.54	17.2	3,505.20	12.6	8.1
Instruments, related products	10,685.47	4.3	1,942.30	7.0	18.2
Miscellaneous manufactures	3,156.88	1.3	332.31	1.2	10.5
Unclassified manufactures	13,097.07	5.2	358.51	1.3	2.7
Waste and scrap	3,029.40	1.2	687.96	2.5	22.7
Used merchandise	1,260.34	0.5	126.85	0.5	10.1
Unclassified commodities	3,021.27	1.2	409.09	1.5	13.5

Australia	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	5,494.76	100.0	3.2	824.41	100.0	3.8	15.0
Crop products	53.62	1.0	0.5	12.17	1.5	1.2	22.7
Meat, animal products	0.87	0.0	0.2	0.01	0.0	0.0	[illegible]
Forest products	2.69	0.0	2.0	1.82	0.2	10.3	67.8
Fish products, furs	0.02	0.0	0.1	—			
Metallic minerals	12.81	0.2	2.3	0.07	0.0	0.1	0.5
Anthracite	0.02	0.0	0.0				
Coal, lignite	0.03	0.0	0.0				
Petroleum, natural gas	3.63	0.1	1.3				
Nonmetallic minerals	14.61	0.3	2.6	1.05	0.1	2.3	[illegible]
Food and kindred products	95.94	1.7	1.1	10.82	1.3	1.1	[illegible]
Tobacco manufactures	8.74	0.2	0.8	0.00	0.0	0.2	[illegible]
Textile mill products	39.34	0.7	3.5	1.44	0.2	3.8	[illegible]
Apparel, textile products	12.04	0.2	1.9	0.98	0.1	1.2	[illegible]
Lumber, wood products	66.62	1.2	2.1	2.65	0.3	1.5	[illegible]
Furniture and fixtures	8.75	0.2	2.2	0.98	0.1	2.8	[illegible]
Paper and allied products	129.37	2.4	3.3	2.28	0.3	1.2	[illegible]
Printed matter	96.59	1.8	7.5	10.16	1.2	[illegible]	[illegible]
Chemicals, allied products	698.57	12.7	4.3	29.88	3.6	3.4	[illegible]
Petroleum and coal products	130.03	2.4	4.4	28.97	3.5	3.9	[illegible]
Rubber, plastic products	125.50	2.3	4.4	9.20	1.1	3.6	[illegible]
Leather, leather products	3.24	0.1	0.7	0.22	0.0	0.6	[illegible]
Stone, clay, glass products	60.15	1.1	3.8	4.42	0.5	4.3	[illegible]
Primary metal products	46.92	0.9	1.0	5.68	0.7	2.0	[illegible]
Fabricated metal products	91.62	1.7	1.9	11.19	1.4	3.0	[illegible]
Machinery, except electrical	1,552.94	28.3	5.3	278.67	33.8	5.1	[illegible]
Electrical, electronic equipment	388.71	7.1	2.0	90.01	10.9	1.8	[illegible]
Transportation equipment	1,208.55	22.0	3.9	216.27	26.2	9.3	[illegible]
Instruments, related products	325.12	5.5	4.2	54.72	6.6	[illegible]	[illegible]
Miscellaneous manufactures	60.10	1.1	3.0	11.14	1.4	4.1	[illegible]
Unclassified manufactures	179.50	3.3	1.6	9.62	1.2	3.3	[illegible]
Waste and scrap	1.63	0.0	0.1	0.05	0.0	0.0	[illegible]
Used merchandise	35.99	0.7	5.0	13.04	1.6	13.1	[illegible]
Unclassified commodities	42.50	0.8	2.4	16.89	2.0	5.1	[illegible]

U.S. and California exports, selected countries, by commodity, 1987

Canada	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	57,354.44	100.0	33.1	2,597.94	100.0	12.1	4.5
Crop products	814.69	1.4	8.2	229.44	8.8	22.7	28.2
Meat, animal products	158.74	0.3	29.8	6.87	0.3	17.4	4.3
Forest products	26.68	0.0	20.3	3.25	0.1	18.3	12.2
Fish products, furs	13.87	0.0	35.5	0.60	0.0	7.6	4.3
Metallic minerals	230.00	0.4	42.1	0.07	0.0	0.1	0.0
Anthracite	27.94	0.0	56.4				
Coal, lignite	641.62	1.1	33.7				
Petroleum, natural gas	105.70	0.2	39.1				
Nonmetallic minerals	203.71	0.4	35.6	13.30	0.5	28.8	6.5
Food and kindred products	1,324.63	2.3	15.8	121.84	4.7	12.4	9.2
Tobacco manufactures	14.39	0.0	1.4	0.03	0.0	4.1	0.2
Textile mill products	380.94	0.7	33.8	4.35	0.2	11.5	1.1
Apparel, textile products	142.80	0.2	22.2	6.90	0.3	8.5	4.8
Lumber, wood products	484.20	0.8	15.2	23.69	0.9	13.0	4.9
Furniture and fixtures	160.11	0.3	40.6	6.51	0.3	18.4	4.1
Paper and allied products	712.69	1.2	18.3	11.22	0.4	6.1	1.6
Printed matter	752.15	1.3	58.3	29.50	1.1	32.3	3.9
Chemicals, allied products	3,276.29	5.7	20.3	86.13	3.3	9.7	2.6
Petroleum and coal products	662.08	1.2	22.4	16.89	0.7	2.3	2.6
Rubber, plastic products	1,054.97	1.8	37.3	40.75	1.6	15.9	3.9
Leather, leather products	103.47	0.2	23.8	2.35	0.1	5.8	2.3
Stone, clay, glass products	804.97	1.4	50.7	24.21	0.9	23.4	3.0
Primary metal products	1,816.82	3.2	36.9	31.95	1.2	11.0	1.8
Fabricated metal products	2,682.32	4.7	56.1	75.83	2.9	20.1	2.8
Machinery, except electrical	8,878.71	15.5	30.3	748.41	28.8	13.6	8.4
Electrical, electronic equipment	4,245.88	7.4	21.6	406.81	15.7	8.1	9.6
Transportation equipment	16,270.10	28.4	52.7	291.26	11.2	12.5	1.8
Instruments, related products	1,546.52	2.7	19.8	226.53	8.7	15.5	14.6
Miscellaneous manufactures	359.06	0.6	17.6	26.20	1.0	9.7	7.3
Unclassified manufactures	8,721.72	15.2	78.3	117.98	4.5	40.7	1.4
Waste and scrap	285.31	0.5	12.6	0.51	0.0	0.1	0.2
Used merchandise	160.65	0.3	22.1	4.22	0.2	4.2	2.6
Unclassified commodities	290.74	0.5	16.5	40.34	1.6	12.3	13.9

France	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	7,943.18	100.0	4.6	1,181.13	100.0	5.5	14.9
Crop products	234.48	3.0	2.4	43.49	3.7	4.3	18.5
Meat, animal products	52.48	0.7	9.9	3.13	0.3	7.9	6.0
Forest products	2.68	0.0	2.0	0.03	0.0	0.1	[illegible]
Fish products, furs	0.27	0.0	0.7	0.01	0.0	0.1	[illegible]
Metallic minerals	1.48	0.0	0.3				
Coal, lignite	124.45	1.6	6.5				
Petroleum, natural gas	0.00	0.0	0.0				
Nonmetallic minerals	12.18	0.2	2.1	3.07	0.3	6.7	25.2
Food and kindred products	300.56	3.8	3.6	25.92	2.2	2.6	8.6
Tobacco manufactures	3.98	0.1	0.4				
Textile mill products	30.05	0.4	2.7	1.09	0.1	2.9	3.6
Apparel, textile products	27.20	0.3	4.2	5.01	0.4	6.2	18.4
Lumber, wood products	19.29	0.2	0.6	2.72	0.2	1.5	14.1
Furniture and fixtures	13.34	0.2	3.4	2.10	0.2	5.9	15.7
Paper and allied products	173.07	2.2	4.4	5.15	0.4	2.8	[illegible]
Printed matter	25.91	0.3	2.0	5.82	0.5	6.4	22.5
Chemicals, allied products	748.80	9.4	4.6	21.91	1.9	2.5	2.9
Petroleum and coal products	69.23	0.9	2.3	9.62	0.8	1.3	13.9
Rubber, plastic products	101.05	1.3	3.6	9.49	0.8	3.7	[illegible]
Leather, leather products	18.49	0.2	4.2	0.66	0.1	1.6	[illegible]
Stone, clay, glass products	45.30	0.6	2.9	1.97	0.2	1.9	[illegible]
Primary metal products	179.01	2.3	3.6	33.39	2.8	11.5	18.7
Fabricated metal products	87.20	1.1	1.8	11.03	0.9	2.9	[illegible]
Machinery, except electrical	1,837.49	23.1	6.3	388.62	32.9	7.1	[illegible]
Electrical, electronic equipment	769.34	9.7	3.9	152.95	12.9	3.0	[illegible]
Transportation equipment	1,620.61	20.4	5.2	129.25	10.9	5.5	[illegible]
Instruments, related products	719.05	9.1	9.2	86.12	7.3	5.9	[illegible]
Miscellaneous manufactures	103.80	1.3	5.1	9.80	0.8	3.6	[illegible]
Unclassified manufactures	190.30	2.4	1.7	10.44	0.9	3.6	[illegible]
Waste and scrap	210.10	2.6	9.3	196.11	16.6	31.3	93.3
Used merchandise	66.67	0.8	9.2	3.36	0.3	3.4	[illegible]
Unclassified commodities	155.33	2.0	8.8	18.89	1.6	5.8	[illegible]

U.S. and California exports, selected countries, by commodity, 1987

Hong Kong	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	3,983.12	100.0	2.3	749.37	100.0	3.5	18.8
Crop products	195.83	4.9	2.0	74.04	9.9	7.3	37.8
Meat, animal products	20.56	0.5	3.9	2.70	0.4	6.8	13.1
Forest products	42.29	1.1	32.2	0.42	0.1	2.3	1.0
Fish products, furs	3.93	0.1	10.0	1.94	0.3	24.5	49.4
Nonmetallic minerals	4.54	0.1	0.8	1.06	0.1	2.3	23.4
Food and kindred products	224.78	5.6	2.7	60.03	8.0	6.1	26.7
Tobacco manufactures	266.44	6.7	25.4	0.08	0.0	9.5	0.0
Textile mill products	46.03	1.2	4.1	3.50	0.5	9.2	7.6
Apparel, textile products	22.15	0.6	3.4	3.21	0.4	4.0	14.5
Lumber, wood products	17.98	0.5	0.6	0.61	0.1	0.3	3.4
Furniture and fixtures	8.51	0.2	2.2	0.67	0.1	1.9	7.9
Paper and allied products	95.13	2.4	2.4	5.33	0.7	2.9	5.6
Printed matter	16.75	0.4	1.3	3.21	0.4	3.5	19.1
Chemicals, allied products	551.64	13.8	3.4	52.39	7.0	5.9	9.5
Petroleum and coal products	4.57	0.1	0.2	0.84	0.1	0.1	18.4
Rubber, plastic products	79.84	2.0	2.8	8.47	1.1	3.3	10.6
Leather, leather products	30.56	0.8	7.0	1.62	0.2	4.0	5.3
Stone, clay, glass products	28.55	0.7	1.8	4.22	0.6	4.1	14.8
Primary metal products	61.47	1.5	1.2	4.85	0.6	1.7	7.9
Fabricated metal products	50.51	1.3	1.1	7.19	1.0	1.9	14.2
Machinery, except electrical	563.49	14.1	1.9	157.90	21.1	2.9	28.0
Electrical, electronic equipment	683.33	17.2	3.5	230.26	30.7	4.6	33.7
Transportation equipment	349.92	8.8	1.1	44.21	5.9	1.9	12.6
Instruments, related products	173.34	4.4	2.2	28.50	3.8	1.9	16.4
Miscellaneous manufactures	267.36	6.7	13.1	11.02	1.5	4.1	4.1
Unclassified manufactures	96.70	2.4	0.9	9.34	1.2	3.2	9.7
Waste and scrap	11.97	0.3	0.5	0.77	0.1	0.1	6.4
Used merchandise	11.57	0.3	1.6	5.07	0.7	5.1	43.8
Unclassified commodities	53.33	1.3	3.0	25.93	3.5	7.9	48.6

Japan	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	28,248.65	100.0	16.3	4,537.02	100.0	21.2	16.1
Crop products	3,615.76	12.8	36.3	330.73	7.3	32.7	9.1
Meat, animal products	55.69	0.2	10.5	14.32	0.3	36.2	25.7
Forest products	14.86	0.1	11.3	7.17	0.2	40.3	48.3
Fish products, furs	14.55	0.1	37.2	3.12	0.1	39.3	21.5
Metallic minerals	156.25	0.6	28.6	63.01	1.4	81.8	40.3
Anthracite	0.00	0.0	0.0	-			
Coal, lignite	484.58	1.7	25.4				
Petroleum, natural gas	144.34	0.5	53.4	0.02	0.0	82.0	0.0
Nonmetallic minerals	141.18	0.5	24.7	5.46	0.1	11.8	3.9
Food and kindred products	3,123.64	11.1	37.3	454.37	10.0	46.1	14.5
Tobacco manufactures	435.2[illegible]	1.8	47.2	0.45	0.0	55.5	0.1
Textile mill products	105.48	0.4	9.3	4.52	0.1	11.9	4.3
Apparel, textile products	110.61	0.4	17.2	28.71	0.6	35.6	26.0
Lumber, wood products	1,813.96	6.4	56.9	44.11	1.0	24.1	2.4
Furniture and fixtures	29.01	0.1	7.4	5.31	0.1	15.0	18.3
Paper and allied products	898.18	3.2	23.1	58.88	1.3	31.8	6.6
Printed matter	78.23	0.3	6.1	8.94	0.2	9.8	11.4
Chemicals, allied products	3,275.50	11.6	20.3	240.50	5.3	27.0	7.3
Petroleum and coal products	756.14	2.7	25.6	192.41	4.2	26.0	25.[illegible]
Rubber, plastic products	300.48	1.1	10.6	33.15	0.7	12.9	11.0
Leather, leather products	93.64	0.3	21.5	21.15	0.5	52.7	22.6
Stone, clay, glass products	152.60	0.5	9.6	12.01	0.3	11.6	7.9
Primary metal products	756.22	2.7	15.3	40.62	0.9	14.0	5.4
Fabricated metal products	299.93	1.1	6.3	31.55	0.7	8.4	10.5
Machinery, except electrical	2,905.66	10.3	9.9	759.26	16.7	13.8	26.1
Electrical, electronic equipment	2,071.94	7.3	10.5	754.80	16.6	15.0	36.4
Transportation equipment	2,973.00	10.5	9.6	634.05	14.0	27.2	21.3
Instruments, related products	1,409.10	5.0	18.1	331.38	7.3	22.7	23.5
Miscellaneous manufactures	537.12	1.9	26.4	89.69	2.0	33.2	16.7
Unclassified manufactures	321.09	1.1	2.9	32.93	0.7	11.4	10.3
Waste and scrap	596.72	2.1	26.3	219.04	4.8	35.0	36.7
Used merchandise	69.08	0.2	9.5	26.34	0.6	26.5	38.[illegible]
Unclassified commodities	448.92	1.6	25.5	89.03	2.0	27.1	19.8

U.S. and California exports, selected countries, by commodity, 1987

Malaysia	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	1,896.53	100.0	1.1	868.88	100.0	4.1	45.8
Crop products	67.56	3.6	0.7	5.78	0.7	0.6	8.5
Meat, animal products	1.08	0.1	0.2	0.58	0.1	1.5	53.6
Forest products	0.61	0.0	0.5	0.03	0.0	0.2	5.2
Fish products, furs	0.00	0.0	0.0				
Nonmetallic minerals	2.04	0.1	0.4	0.44	0.1	0.9	21.4
Food and kindred products	21.67	1.1	0.3	6.81	0.8	0.7	31.4
Tobacco manufactures	5.95	0.3	0.6				
Textile mill products	3.01	0.2	0.3	0.13	0.0	0.4	4.5
Apparel, textile products	2.34	0.1	0.4	0.10	0.0	0.1	4.4
Lumber, wood products	1.08	0.1	0.0	0.13	0.0	0.1	12.1
Furniture and fixtures	0.52	0.0	0.1	0.20	0.0	0.6	37.5
Paper and allied products	37.62	2.0	1.0	0.80	0.1	0.4	2.1
Printed matter	4.25	0.2	0.3	0.27	0.0	0.3	6.4
Chemicals, allied products	116.42	6.1	0.7	13.16	1.5	1.5	11.3
Petroleum and coal products	8.22	0.4	0.3	1.79	0.2	0.2	21.8
Rubber, plastic products	6.54	0.3	0.2	2.56	0.3	1.0	39.2
Leather, leather products	0.16	0.0	0.0	0.01	0.0	0.0	6.3
Stone, clay, glass products	5.41	0.3	0.3	0.28	0.0	0.3	5.2
Primary metal products	49.49	2.6	1.0	1.25	0.1	0.4	2.5
Fabricated metal products	11.99	0.6	0.3	2.13	0.2	0.6	17.8
Machinery, except electrical	148.61	7.8	0.5	49.43	5.7	0.9	33.3
Electrical, electronic equipment	1,268.24	66.9	6.5	742.46	85.5	14.8	58.5
Transportation equipment	48.30	2.5	0.2	13.49	1.6	0.6	27.9
Instruments, related products	44.46	2.3	0.6	17.67	2.0	1.2	39.7
Miscellaneous manufactures	5.77	0.3	0.3	0.21	0.0	0.1	3.6
Unclassified manufactures	24.33	1.3	0.2	2.04	0.2	0.7	8.4
Waste and scrap	3.25	0.2	0.1	2.68	0.3	0.4	82.3
Used merchandise	0.12	0.0	0.0	0.03	0.0	0.0	23.3
Unclassified commodities	7.48	0.4	0.4	4.43	0.5	1.4	59.2

Mexico	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	14,582.24	100.0	8.4	1,952.22	100.0	9 [illegible]	13.4
Crop products	725.85	5.0	7.3	27.68	1.4	2 [illegible]	3.8
Meat, animal products	40.96	0.3	7.7	1.93	0.1	4.9	[illegible]
Forest products	12.92	0.1	9.8	0.56	0.0	3 [illegible]	[illegible]
Fish products, furs	0.04	0.0	0.1	0.04	0.0	0.5	[illegible]
Metallic minerals	16.50	0.1	3.0	0.00	0.0	0.0	[illegible]
Anthracite	0.70	0.0	1.4	0.02	0.0	100.0	[illegible]
Coal, lignite	5.75	0.0	0.3	0.02	0.0	89 [illegible]	[illegible]
Petroleum, natural gas	0.01	0.0	0.0	0.00	0.0	18 [illegible]	[illegible]
Nonmetallic minerals	59.97	0.4	10.5	6.24	0.3	13.5	[illegible]
Food and kindred products	441.26	3.0	5.3	47.06	2.4	4.8	[illegible]
Tobacco manufactures	0.89	0.0	0.1				
Textile mill products	209.59	1.4	18.6	11.64	0.6	30 [illegible]	[illegible]
Apparel, textile products	221.37	1.5	34.4	26.20	1.3	32.5	[illegible]
Lumber, wood products	114.25	0.8	3.6	79.33	4.1	43.4	[illegible]
Furniture and fixtures	82.39	0.6	20.9	9.90	0.5	28 [illegible]	[illegible]
Paper and allied products	554.54	3.8	14.2	60.31	3.1	32.6	[illegible]
Printed matter	43.51	0.3	3.4	7.66	0.4	8.4	[illegible]
Chemicals, allied products	1,280.93	8.8	7.9	73.39	3.8	8 [illegible]	[illegible]
Petroleum and coal products	592.62	4.1	20.1	269.29	13.8	36.3	[illegible]
Rubber, plastic products	473.92	3.2	16.8	93.98	4.8	36.6	[illegible]
Leather, leather products	42.50	0.3	9.8	5.40	0.3	13.5	[illegible]
Stone, clay, glass products	150.08	1.0	9.5	29.99	1.5	29 [illegible]	[illegible]
Primary metal products	504.08	3.5	10.2	91.24	4.7	31.5	[illegible]
Fabricated metal products	545.69	3.7	11.4	114.17	5.8	30 [illegible]	[illegible]
Machinery, except electrical	2,226.57	15.3	7.6	337.63	17.3	6 [illegible]	[illegible]
Electrical, electronic equipment	3,097.77	21.2	15.8	375.71	19.2	7.5	[illegible]
Transportation equipment	1,671.71	11.5	5.4	73.44	3.8	3 [illegible]	[illegible]
Instruments, related products	478.88	3.3	6.1	70.00	3.6	4.8	[illegible]
Miscellaneous manufactures	144.05	1.0	7.1	51.96	2.7	19 [illegible]	[illegible]
Unclassified manufactures	502.48	3.4	4.5	34.33	1.8	[illegible]	[illegible]
Waste and scrap	204.03	1.4	9.0	15.95	0.8	[illegible]	[illegible]
Used merchandise	58.55	0.4	8.1	7.24	0.4	7.3	[illegible]
Unclassified commodities	77.90	0.5	4.4	29.89	1.5	9 [illegible]	38.4

U.S. and California exports, selected countries, by commodity, 1987

Netherlands	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	8,216.68	100.0	4.7	866.90	100.0	4.0	10.6
Crop products	1,062.78	12.9	10.7	50.73	5.9	5.0	4.8
Meat, animal products	7.88	0.1	1.5	1.76	0.2	4.4	22.3
Forest products	3.27	0.0	2.5	0.08	0.0	0.5	2.6
Fish products, furs	0.59	0.0	1.5	0.00	0.0	0.0	0.5
Metallic minerals	32.87	0.4	6.0	0.02	0.0	0.0	0.1
Coal, lignite	177.29	2.2	9.3				
Nonmetallic minerals	36.67	0.4	6.4	8.11	0.9	17.6	22.1
Food and kindred products	929.37	11.3	11.1	25.18	2.9	2.6	2.7
Tobacco manufactures	23.73	0.3	2.3				
Textile mill products	18.61	0.2	1.6	0.25	0.0	0.7	1.4
Apparel, textile products	5.33	0.1	0.8	0.42	0.0	0.5	7.9
Lumber, wood products	48.77	0.6	1.5	1.32	0.2	0.7	2.7
Furniture and fixtures	7.42	0.1	1.9	0.44	0.1	1.2	5.9
Paper and allied products	206.48	2.5	5.3	3.23	0.4	1.7	1.6
Printed matter	47.28	0.6	3.7	2.52	0.3	2.8	5.3
Chemicals, allied products	1,491.78	18.2	9.2	147.50	17.0	16.5	9.9
Petroleum and coal products	205.45	2.5	7.0	26.43	3.0	3.6	12.9
Rubber, plastic products	94.44	1.1	3.3	11.47	1.3	4.5	12.1
Leather, leather products	5.11	0.1	1.2	0.15	0.0	0.4	2.9
Stone, clay, glass products	28.32	0.3	1.8	0.99	0.1	1.0	3.5
Primary metal products	108.35	1.3	2.2	3.37	0.4	1.2	3.1
Fabricated metal products	121.70	1.5	2.5	7.94	0.9	2.1	6.5
Machinery, except electrical	1,467.33	17.9	5.0	363.82	42.0	6.6	24.8
Electrical, electronic equipment	588.38	7.2	3.0	91.70	10.6	1.8	15.6
Transportation equipment	672.47	8.2	2.2	46.18	5.3	2.0	6.9
Instruments, related products	545.97	6.6	7.0	51.64	6.0	3.5	9.5
Miscellaneous manufactures	49.67	0.6	2.4	6.65	0.8	2.5	13.4
Unclassified manufactures	113.65	1.4	1.0	5.12	0.6	1.8	4.5
Waste and scrap	25.81	0.3	1.1	0.15	0.0	0.0	0.6
Used merchandise	29.88	0.4	4.1	1.49	0.2	1.5	5.0
Unclassified commodities	60.00	0.7	3.4	8.24	1.0	2.5	13.7

Singapore	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	4,052.74	100.0	2.3	1,368.39	100.0	6.4	33.8
Crop products	40.43	1.0	0.4	15.39	1.1	1.5	38.1
Meat, animal products	0.98	0.0	0.2	0.07	0.0	0.2	6.9
Forest products	2.15	0.1	1.6	0.30	0.0	1.7	14.0
Fish products, furs	0.06	0.0	0.2	0.04	0.0	0.5	58.[illegible]
Metallic minerals	0.18	0.0	0.0				
Anthracite	0.02	0.0	0.0				
Petroleum, natural gas	0.01	0.0	0.0				
Nonmetallic minerals	3.72	0.1	0.6	0.58	0.0	1.3	15.6
Food and kindred products	88.77	2.2	1.1	24.48	1.8	2.5	27.6
Tobacco manufactures	76.86	1.9	7.3				
Textile mill products	19.62	0.5	1.7	1.74	0.1	4.6	8.9
Apparel, textile products	7.99	0.2	1.2	1.34	0.1	1.7	16.8
Lumber, wood products	6.14	0.2	0.2	0.17	0.0	0.1	2.6
Furniture and fixtures	9.01	0.2	2.3	1.03	0.1	2.9	11.4
Paper and allied products	51.44	1.3	1.3	2.20	0.2	1.2	4.3
Printed matter	17.86	0.4	1.4	1.43	0.1	1.6	8.0
Chemicals, allied products	363.43	9.0	2.3	27.89	2.0	3.1	7.7
Petroleum and coal products	76.82	1.9	2.6	42.85	3.1	5.8	55.8
Rubber, plastic products	37.66	0.9	1.3	7.91	0.6	3.1	21.0
Leather, leather products	4.18	0.1	1.0	0.28	0.0	0.7	6.7
Stone, clay, glass products	19.12	0.5	1.2	2.32	0.2	2.2	12.1
Primary metal products	41.96	1.0	0.9	5.82	0.4	2.0	13.9
Fabricated metal products	53.27	1.3	1.1	11.61	0.8	3.1	21.8
Machinery, except electrical	1,221.00	30.1	4.2	612.23	44.7	11.1	50.1
Electrical, electronic equipment	1,035.24	25.5	5.3	329.22	24.1	6.5	31.8
Transportation equipment	538.93	13.3	1.7	208.94	15.3	9.0	38.8
Instruments, related products	150.60	3.7	1.9	49.25	3.6	3.4	32.7
Miscellaneous manufactures	42.27	1.0	2.1	5.83	0.4	2.2	13.8
Unclassified manufactures	97.38	2.4	0.9	7.25	0.5	2.5	7.4
Waste and scrap	3.67	0.1	0.2	0.78	0.1	0.1	21.3
Used merchandise	24.32	0.6	3.3	0.70	0.1	0.7	2.9
Unclassified commodities	17.62	0.4	1.0	6.73	0.5	2.1	38.2

U S and California exports, selected countries, by commodity, 1987

South Korea	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	8,098.70	100.0	4.7	1,367.89	100.0	6.4	16.9
Crop products	1,125.72	13.9	11.3	25.26	1.8	2.5	2.2
Meat, animal products	18.28	0.2	3.4	2.30	0.2	5.8	12.6
Forest products	1.50	0.0	1.1	0.38	0.0	2.1	25.5
Fish products, furs	1.22	0.0	3.1	0.11	0.0	1.4	8.8
Metallic minerals	30.95	0.4	5.7	7.60	0.6	9.9	24.5
Anthracite	20.69	0.3	41.8				
Coal, lignite	146.49	1.8	7.7	0.00	0.0	11.0	0.0
Petroleum, natural gas	9.92	0.1	3.7				
Nonmetallic minerals	31.37	0.4	5.5	2.89	0.2	6.3	9.2
Food and kindred products	729.81	9.0	8.7	36.58	2.7	3.7	5.0
Tobacco manufactures	6.16	0.1	0.6				
Textile mill products	39.03	0.5	3.5	1.43	0.1	3.8	3.7
Apparel, textile products	10.34	0.1	1.6	0.43	0.0	0.5	4.2
Lumber, wood products	187.19	2.3	5.9	5.74	0.4	3.1	3.1
Furniture and fixtures	9.56	0.1	2.4	0.45	0.0	1.3	4.7
Paper and allied products	257.34	3.2	6.6	19.40	1.4	10.5	7.5
Printed matter	7.09	0.1	0.5	0.87	0.1	1.0	12.3
Chemicals, allied products	1,015.57	12.5	6.3	43.80	3.2	4.9	4.3
Petroleum and coal products	181.14	2.2	6.1	63.50	4.6	8.6	35.1
Rubber, plastic products	103.29	1.3	3.7	5.75	0.4	2.2	5.6
Leather, leather products	59.93	0.7	13.8	2.65	0.2	6.6	4.4
Stone, clay, glass products	59.71	0.7	3.8	8.98	0.7	8.7	15.0
Primary metal products	102.22	1.3	2.1	11.66	0.9	4.0	11.4
Fabricated metal products	186.20	2.3	3.9	24.25	1.8	6.4	13.0
Machinery, except electrical	1,033.69	12.8	3.5	221.71	16.2	4.0	21.4
Electrical, electronic equipment	1,064.77	13.1	5.4	408.72	29.9	8.1	38.4
Transportation equipment	783.08	9.7	2.5	199.73	14.6	8.6	25.5
Instruments, related products	279.75	3.5	3.6	121.37	8.9	8.3	43.4
Miscellaneous manufactures	53.48	0.7	2.6	6.15	0.4	2.3	11.5
Unclassified manufactures	84.30	1.0	0.8	9.60	0.7	3.3	11.4
Waste and scrap	418.21	5.2	18.5	123.55	9.0	19.7	29.5
Used merchandise	19.16	0.2	2.6	0.32	0.0	0.3	1.7
Unclassified commodities	21.54	0.3	1.2	12.70	0.9	3.9	58.9

Taiwan	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	7,412.67	100.0	4.3	1,290.43	100.0	6.0	17.4
Crop products	987.08	13.3	9.9	20.30	1.6	2.0	[illegible]
Meat, animal products	7.21	0.1	1.4	0.37	0.0	0.9	[illegible]
Forest products	5.88	0.1	4.5	0.07	0.0	0.4	[illegible]
Fish products, furs	2.92	0.0	7.5	2.03	0.2	25.5	69.5
Metallic minerals	5.59	0.1	1.0	5.12	0.4	6.6	[illegible]
Coal, lignite	190.48	2.6	10.0				
Petroleum, natural gas	6.62	0.1	2.4				
Nonmetallic minerals	20.49	0.3	3.6	0.95	0.1	[illegible]	[illegible]
Food and kindred products	300.06	4.0	3.6	39.47	3.1	4.0	13.2
Tobacco manufactures	118.87	1.6	11.3	0.24	0.0	29.8	[illegible]
Textile mill products	23.89	0.3	2.1	0.90	0.1	2.4	[illegible]
Apparel, textile products	4.54	0.1	0.7	0.42	0.0	0.5	9.3
Lumber, wood products	127.20	1.7	4.0	4.28	0.3	2.3	[illegible]
Furniture and fixtures	3.74	0.1	0.9	1.29	0.1	3.6	34.5
Paper and allied products	138.56	1.9	3.6	8.26	0.6	4.5	[illegible]
Printed matter	8.14	0.1	0.6	2.26	0.2	2.5	27.8
Chemicals, allied products	1,092.46	14.7	6.8	51.05	4.0	[illegible]	[illegible]
Petroleum and coal products	182.08	2.5	6.2	80.75	6.3	10.9	[illegible]
Rubber, plastic products	62.82	0.8	2.2	7.82	0.6	3.0	[illegible]
Leather, leather products	32.14	0.4	7.4	2.88	0.2	7.2	[illegible]
Stone, clay, glass products	39.16	0.5	2.5	5.51	0.4	5.3	[illegible]
Primary metal products	646.88	8.7	13.1	10.00	0.8	3.5	[illegible]
Fabricated metal products	152.17	2.1	3.2	26.16	2.0	6.9	[illegible]
Machinery, except electrical	836.91	11.3	2.9	238.95	18.5	4.3	28.6
Electrical, electronic equipment	1,260.16	17.0	6.4	575.98	44.6	11.4	[illegible]
Transportation equipment	473.24	6.4	1.5	62.86	4.9	[illegible]	[illegible]
Instruments, related products	227.16	3.1	2.9	69.94	5.4	4.8	[illegible]
Miscellaneous manufactures	31.93	0.4	1.6	7.78	0.6	[illegible]	[illegible]
Unclassified manufactures	100.84	1.4	0.9	7.86	0.6	[illegible]	[illegible]
Waste and scrap	275.67	3.7	12.2	48.19	3.7	[illegible]	[illegible]
Used merchandise	14.05	0.2	1.9	2.28	0.2	2.3	[illegible]
Unclassified commodities	33.76	0.5	1.9	6.46	0.5	2.0	[illegible]

U.S. and California exports, selected countries, by commodity, 1987

United Kingdom	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	14,113.89	100.0	8.2	1,990.27	100.0	9.3	14.1
Crop products	295.19	2.1	3.0	46.30	2.3	4.6	15.7
Meat, animal products	110.69	0.8	20.8	2.85	0.1	7.2	2.6
Forest products	8.20	0.1	6.2	3.59	0.2	20.2	43.8
Fish products, furs	0.82	0.0	2.1	0.05	0.0	0.7	6.5
Metallic minerals	37.22	0.3	6.8	0.56	0.0	0.7	1.5
Anthracite	0.10	0.0	0.2				
Coal, lignite	114.46	0.8	6.0				
Petroleum, natural gas	0.26	0.0	0.1				
Nonmetallic minerals	20.26	0.1	3.5	1.48	0.1	3.2	7.3
Food and kindred products	298.45	2.1	3.6	63.52	3.2	6.4	21.3
Tobacco manufactures	3.33	0.0	0.3	0.01	0.0	0.8	0.2
Textile mill products	137.79	1.0	12.2	4.80	0.2	12.7	3.5
Apparel, textile products	38.68	0.3	6.0	2.20	0.1	2.7	5.7
Lumber, wood products	143.17	1.0	4.5	8.08	0.4	4.4	5.6
Furniture and fixtures	40.17	0.3	10.2	4.04	0.2	11.4	10.0
Paper and allied products	291.05	2.1	7.5	3.26	0.2	1.8	1.1
Printed matter	157.61	1.1	12.2	13.61	0.7	14.9	8.6
Chemicals, allied products	1,033.22	7.3	6.4	49.12	2.5	5.5	4.8
Petroleum and coal products	43.38	0.3	1.5	1.67	0.1	0.2	3.8
Rubber, plastic products	199.49	1.4	7.1	15.82	0.8	6.2	7.9
Leather, leather products	17.08	0.1	3.9	1.05	0.1	2.6	6.1
Stone, clay, glass products	84.45	0.6	5.3	5.37	0.3	5.2	6.4
Primary metal products	340.96	2.4	6.9	24.94	1.3	8.6	7.3
Fabricated metal products	313.06	2.2	6.6	37.23	1.9	9.9	11.9
Machinery, except electrical	3,670.44	26.0	12.5	689.35	34.6	12.5	18.8
Electrical, electronic equipment	1,808.32	12.8	9.2	460.46	23.1	9.2	25.5
Transportation equipment	2,579.08	18.3	8.4	243.74	12.2	10.5	9.5
Instruments, related products	1,024.67	7.3	13.1	173.68	8.7	11.9	16.9
Miscellaneous manufactures	213.44	1.5	10.5	25.83	1.3	9.5	12.1
Unclassified manufactures	423.29	3.0	3.8	24.44	1.2	8.4	5.8
Waste and scrap	183.39	1.3	8.1	15.62	0.8	2.5	8.5
Used merchandise	130.31	0.9	17.8	27.97	1.4	28.1	[illegible]
Unclassified commodities	351.83	2.5	20.0	39.66	2.0	12.1	11.3

West Germany	United States			California			Calif as % of US
	$ million	% cntry total	% cmdty total	$ million	% cntry total	% cmdty total	
All commodities	11,747.72	100.0	6.8	1,851.23	100.0	8.6	15.8
Crop products	748.44	6.4	7.5	129.46	7.0	12.8	17.3
Meat, animal products	57.00	0.5	10.7	2.70	0.1	6.8	[illegible]
Forest products	7.59	0.1	5.8	0.07	0.0	0.4	[illegible]
Fish products, furs	0.82	0.0	2.1	0.00	0.0	0.1	[illegible]
Metallic minerals	22.06	0.2	4.0	0.61	0.0	0.8	[illegible]
Anthracite	0.04	0.0	0.1				
Coal, lignite	19.90	0.2	1.0				
Nonmetallic minerals	21.80	0.2	3.8	1.47	0.1	3.2	6.8
Food and kindred products	489.43	4.2	5.8	69.66	3.8	7.1	[illegible]
Tobacco manufactures	24.96	0.2	2.4				
Textile mill products	74.86	0.6	6.6	2.08	0.1	5.5	[illegible]
Apparel, textile products	37.34	0.3	5.8	4.81	0.3	6.0	[illegible]
Lumber, wood products	159.09	1.4	5.0	10.05	0.5	5.5	[illegible]
Furniture and fixtures	21.86	0.2	5.5	2.51	0.1	7.1	[illegible]
Paper and allied products	348.30	3.0	8.9	4.74	0.3	2.6	[illegible]
Printed matter	34.89	0.3	2.7	5.22	0.3	5.7	[illegible]
Chemicals, allied products	1,186.43	10.1	7.4	65.03	3.0	6.2	[illegible]
Petroleum and coal products	40.31	0.3	1.4	6.15	0.3	0.8	[illegible]
Rubber, plastic products	188.31	1.6	6.7	10.29	0.6	4.0	5.5
Leather, leather products	25.01	0.2	5.7	1.70	0.1	4.2	6.8
Stone, clay, glass products	109.42	0.9	6.9	3.30	0.2	3.2	[illegible]
Primary metal products	272.34	2.3	5.5	24.58	1.3	8.5	[illegible]
Fabricated metal products	182.18	1.6	3.8	17.43	0.9	4.6	[illegible]
Machinery, except electrical	2,944.36	25.1	10.1	663.42	35.8	12.0	[illegible]
Electrical, electronic equipment	1,359.37	11.6	6.9	412.22	22.3	8.2	[illegible]
Transportation equipment	1,694.59	14.4	5.5	165.94	9.0	7.1	[illegible]
Instruments, related products	680.77	7.5	11.3	182.15	9.8	12.5	[illegible]
Miscellaneous manufactures	167.48	1.4	8.2	18.30	1.0	6.8	[illegible]
Unclassified manufactures	277.97	2.4	2.5	18.66	1.0	6.4	[illegible]
Waste and scrap	45.83	0.4	2.0	2.36	0.1	0.4	[illegible]
Used merchandise	106.55	0.9	14.7	7.40	0.4	7.4	[illegible]
Unclassified commodities	198.41	1.7	11.3	28.91	1.6	8.8	[illegible]

APPENDIX C

Federal and State Cooperation in Promoting United States Exports: A View From California

A Special Memorandum to the Transition Team of the Forty-First President of the United States

From the
California State World Trade Commission

November 9, 1988

November 9, 1988

The Honorable George Bush
President-elect of the United States
Office of the President-elect
1825 Connecticut Avenue, N.W.
Washington, D.C. 20270

Dear Mr. Bush:

The California State World Trade Commission is this state's leading representative in international economic matters, and it is responsible for the development of policies and programs that promote California exports. The Commission is comprised of 11 appointed members, along with 5 ex-officio members including the Governor, the Lieutenant Governor, Secretary of State, and two legislative appointees.

For the past 5 years, we have been involved in export development, export finance, trade policy advocacy, and trade research and information. We have had the opportunity to observe the functioning of existing mechanisms for trade promotion and seek approaches for their improvement.

We take this opportunity to provide a description of the shape of trade promotion in the United States at the beginning of the term of the Forty-First President. On balance, our evaluation is positive; however, we make specific recommendations for improving the administration of trade promotion services.

We hope our analysis will be of use as the transition team examines the issue of international trade. If the World Trade Commission can assist your transition team in the area of export development and trade policy, please let us know.

Respectfully yours,

Gregory Mignano
Executive Director

FEDERAL AND STATE COOPERATION IN PROMOTING UNITED STATES EXPORTS:

A VIEW FROM CALIFORNIA

I. THE ROLE OF STATES

In this memorandum, we wish to advance the case that international trade expansion should become a fundamental goal of the next administration. We are concerned by the recent trend in the federal government to trim expenditures for export development services. We will demonstrate what California has accomplished by emphasizing international trade to increase jobs and productivity, and we will speak from experience when we outline the difficulties exporters now face. Most importantly, we wish to direct attention to our recommendations for sound policy.

At issue is the economic health of the states and the nation. Clearly, international trade has a profound impact on a wide range of domestic concerns. To understand this dynamic, we turn to analysis of trade's impact on California.

A. THE RISE OF CALIFORNIA AND OUR DEPENDENCE ON TRADE

California has always been an international state. Initially a Mexican possession and later heated with the fever of the Gold Rush, California has depended upon the flow of people and goods for its prosperity.

Demographics and geography have favored California in the economic marketplace. As the gateway to the Pacific, we enjoy world-class ports, substantial ethnic diversity, a large consumer market, and solid flows of venture capital -- all of which impact California's role as a trading state.

Trade through California ports today exceeds $118 billion. An average annual growth in this trade of 15 percent since 1975 has created a boom in California. According to Census Bureau state-by-state figures, California-origin merchandise exports alone reached almost $28 billion in 1987. Easily one in ten California jobs is generated by this flow of goods -- a major contribution to statewide growth and development.

In promoting international trade, California seeks to increase jobs and productivity. Thus we believe, the more trade, the better.

In recent years, California has embarked upon an aggressive program to promote international trade. The World Trade Commission was formed in 1983 to design and implement programs to increase California trade. Two years later, the California Export Finance Program was created within the Commission, making it easier for small and medium-sized exporters to obtain financing. The Energy Technology Export Program was created in the California Energy Commission the same year. The State Department of Food and Agriculture initiated the Agriculture Export Program in 1986, and Governor's Overseas Offices of Trade and Investment in London and Tokyo were established in 1987. This year we will be opening our third foreign office in Mexico City. From a modest $500,000 investment in 1983, our budgetary commitment to expanding exports has grown to $10 million annually.

These programs have been carefully crafted to complement, not duplicate, federal programs. We feel the achievements of these programs are due in part to such coordination.

B. EXPANDING STATES' ROLES

It is difficult to overlook the growth of the states' international activities. In the effort to create jobs and foster economic development, states have established trade promotion programs, sent their governors on international missions, and expanded operations through the establishment of overseas offices. In fact, states now maintain 118 foreign offices.[1] States' total annual expenditure for international activities exceeds $62 million.[2] The role of states continues to expand; while it expands, the nature of the role changes as well.

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[1] Oliva, Paul V., "State Overseas Operations," California State World Trade Commission, August 1988.

1) Marketing Assistance

Many states are now actively helping small and medium-sized firms enter the international business arena. The majority of states now offer a variety of export services, including group trade show participation under state banners, export counseling, seminars on exporting, how-to manuals, computerized trade lead referrals, and other services previously supplied exclusively by the U.S. Department of Commerce. Additionally, trade groups, private trade show organizers, financial institutions, regional groups, academic institutions, and others have introduced programs to assist smaller firms with getting started in exporting.

In California we operate an Export Development Program which actively targets potential exporters and facilitates their expansion into the world market through trade shows. By identifying firms which show strong export potential, arranging booth space, providing staff assistance, and organizing travel and accommodations, we have designed this program to complement federal trade show activities and stimulate export sales.

2) Export Financing

Export financing is another growth area in state trade efforts. State programs vary widely in their funding base and scope, but generally seek to assist small and medium-sized firms which do not qualify for commercial bank or Eximbank assistance.

In California, our Export Finance Program (CEFP) has supported nearly $100 million in export sales since its inception, and maintains an Export Finance Fund approaching $5 million. The CEFP can guarantee 85 percent of a qualified loan up to $411,000. The program has also expanded coverage by linking up with federal programs. This has included a cooperative loan guarantee arrangement with the Small Business Administration, a shared guarantee with Eximbank's working capital program, and the acquisition of a state-held policy with the Foreign Credit Insurance Association.

3) Trade policy

All of the marketing and financing support provided by the federal and state governments is of little value if U.S. companies are unable to gain access to foreign markets. States have thus grown more vocal in their relations with foreign governments, as well as with policy makers in Washington D.C.

California is playing an active role in this process, and we believe involvement in trade policy can be as important for fostering trade as other forms of export assistance. We have therefore strengthened our role in policy formulation through the placement of a full-time World Trade Commission representative in Washington D.C. We maintain an active involvement in ongoing issues of international importance, such as the Uruguay Round of GATT negotiations, the Omnibus Trade Bill, and the U.S.-Canada Free Trade Agreement. In fact, California involvement has helped to speed along resolution of various trade disputes, including the beef and citrus dispute with Japan. Within the state we have conducted numerous seminars, and have identified trade barriers and emerging opportunities through various reports on issues in international trade.

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[2] State Export Program Database, National Association of State Development Agencies, July 1988. This figure represents expenditures on all international activities, including investment attraction

4) Economic development

The responsibility of states goes far beyond specific trade promotion programs. States are obligated to create the conditions and capacity for sound economic development by building infrastructure, fostering technological innovation, promoting education, and administering adjustment assistance.

Economic development depends upon sound infrastructure, which in turn defines a state's competitive position. To improve productivity and foster controlled growth, states are taking a more active role in shaping expansion of street and highway systems, air and water ports, and other avenues of freight transportation. To give exporters a competitive edge, states also experiment with innovative techniques to reduce costs and transportation time and increase the efficiency of domestic suppliers.[3]

Recent developments in high technology have underscored America's slipping position in manufacturing technology and exportable high-tech products. The trade bill has established a mandate for improved coordination between various R & D entities by creating regional technology centers. In California, Governor Deukmejian recently formed an Office of Competitive Technology to facilitate collaboration between research institutions and to provide matching grants.

One great challenge in the U.S. today is to graduate students who meet the needs of employers. Statistics demonstrating the deficiencies abound: for instance, only 5 percent of college students are fluent in a foreign language and only 75 percent of high school seniors in a major Southwest city could identify Mexico as the country that lies immediately to our south.[4] National assessments indicate that high school students cannot even read or write well. States are moving to make education more responsive to the needs of employers through decentralization, expanded opportunities for parental choice, instituting performance rewards, taking steps to improve the teaching profession, and increasing interaction between the private sector and educational institutions.[5] Education is also essential for smoothing the adjustments to changes in the industrial base. States are taking the lead in tailoring adjustment assistance programs to shifting state economies.

II. TOWARD SOUND FEDERAL POLICY

We have examined the role of state governments in international trade promotion; we now turn to the federal role and the forces shaping U.S. policy. In this discussion, we will stress that an appropriate division of labor can exist between the federal and state governments. Most importantly, however, we shall maintain our case for making trade a national priority.

A. THE ROLE OF THE FEDERAL GOVERNMENT IN INTERNATIONAL TRADE

To strengthen the U.S. trading position and advance long-term economic stability, the federal government must make trade a national priority while clearly defining the role it will play in facilitating trade.

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[3] Vision: California 2010, California Economic Development Corporation, pp. 37-39.

[4] America in Transition: The International Frontier, National Governor's Association, p. 8.

[5] Vision: California 2010, pp. 26-28.

1) The Changing Relationship of State and Federal Trade Programs

Clearly, the present system for conducting international trade is strained by pressures to reduce the federal budget deficit. Washington has pointed to seemingly more responsive and cost-effective state programs as a justification for continuing to reduce its budgetary commitment. However, the diminution of federal commitment to trade programs and the blurring state/federal role are having a detrimental impact on trade promotion. Those whom we wish to help -- exporters -- are not receiving the assistance they need.

Part of this problem can be addressed by state governments. However, the states lack the resources to tackle all of them. As federal export services reach critically low levels, states might seek to compensate -- even in areas where states do not have the resources, staff, or experience to fill federal shoes. States may then be unable to pursue strategic expansion of their own successful programs. We are in fact already beginning to feel the pressure from deficiencies in federal services.

This trend causes us concern. Our experience shows us that state involvement can prove highly beneficial to trade expansion. On the other hand, it is possible to envision a crippling decline in federal involvement.

2) A Budget Justification for Federal Trade Programs

Comparisons with the expenditures of other nations illustrate the extent of our relative decline in trade promotion. The House Foreign Affairs Committee has established that our export promotion expenditures fall significantly short of the programs of *all our major trading partners* in terms of spending per capita and per $1000 GNP. For example, in 1987 the U.S. spent $1.20 per capita and $.06 per $1000 GNP, while Canada spent $21.44 and $1.48, respectively.[6]

A strong federal role is justified for fiscal reasons. We believe that well-run trade programs enhance revenue. This has been borne out by experience with our own programs. To take only one example, our California Export Finance Program has directly supported almost $100 million in export sales -- in just three years -- with total state expenditure of less than $2 million. Most of our firms, after receiving this support, have gone on to win larger contracts and find financing on their own.

It may be difficult to quantify the value of other types of programs, but the lesson is clear. Trade programs can pay for themselves through user fees, job creation, and economic growth. Washington's pledge to fully support international trade would be a sound investment.

B. RECOMMENDATIONS

A complementary division of labor ***can*** exist between state and federal programs. We have discussed the role of states in international trade promotion. The responsibilities which lie with Washington are the following:

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[6] Staff Report of the Subcommittee on International Operations, Committee on Foreign Affairs, "Oversight of the U.S. and Foreign Commercial Service," p. 5. Figures are provided by the International Trade Administration, Trade Development and Analysis Division.

1) Renew vigorous federal support for international trade programs, and

2) Work with the states to develop an effective division of labor for trade promotion.

It is our opinion that existing federal programs are not fundamentally flawed. Reorganization of the trade promotion structure would be counter-productive.

The key, then, to improving federal international trade programs is implementation. ***We are looking for a re-ordering of priorities rather than specific structural changes.*** With sober recognition of the complexity it entails, the rebuilding of our international trade programs -- while coordinating state and federal efforts -- should become a national priority.

As we indicated at the outset, we wish to offer specific recommendations. We shall begin with the United States and Foreign Commercial Service and a critique of its programs. Then we will address the Bureau of Export Administration and follow with our comments on the Small Business Administration and the Export-Import Bank. Finally, we will consider the Office of the U.S. Trade Representative.

1) United States & Foreign Commercial Service

When established in 1982 to help American exporters, the US & FCS was one of the few resources available to small and medium-sized firms attempting to market their products internationally. Today, US & FCS continues to be the major provider of basic services -- how-to-export seminars, one-on-one business counseling, market research, trade events, and export licensing assistance.

The US & FCS should continue to take the leading role in U.S. export promotion. In doing so, the need for effective implementation of existing programs is especially critical. This may require some clarification of the role of US & FCS within the overall structure of the International Trade Administration. US & FCS must focus on export development and avoid resource-consuming involvement in trade policy formulation and other matters not directly related to its mission.

RECOMMENDATIONS

District Offices

Through attrition over the past three years, we have seen a 40% decline in staffing levels in district offices in Los Angeles and San Francisco. Our Washington, D.C. Representative, in her May 11, 1988 testimony before the House Foreign Affairs Committee, noted that "As a result, the office directors and trade specialists are answering phones, typing letters and staffing the library on a rotational basis instead of providing more export counseling, holding seminars and expanding community outreach."

Staffing reductions have also harmed the basic interplay of foreign posts and district offices -- so necessary for the functioning of the present system. The complementary responsibilities of market intelligence-gathering overseas and information dissemination at home are breaking down. No amount of state spending can make up for this crippling trend.

The present budget process has encouraged management-by-attrition. This should not be the case. Funding distribution must be tied more directly with office need. ***To facilitate this needs-based approach, there must be regular review of offices, as well as shifting of staff to accommodate evolving district demands.***

The key for district offices is to address the specific needs of each particular territory in which the district offices are located. Goals should be tailored to the specific region, based on the services provided by other groups, the needs of regional industry, and other factors. It is possible, for instance, that a particular region should provide a greater amount of market research support, while another may need strong marketing assistance, while yet a third may require particular attention to export license counselling.

Commerce should be more willing to abandon, modify, selectively distribute, or postpone some programs. The district offices seem to be overwhelmed in attempting to reach their Washington-assigned objectives. This may be a factor in the low morale we have observed and the departure of some of the department's best employees. ***District objectives should be set after a thorough needs assessment has been conducted.*** Although Commerce's budget process may restrict flexibility, many changes can be made in the administration of office programs without additional budget resources. ***Each district office should therefore play a major role in setting its own objectives.*** Moreover, if greater discretion is allowed, district offices will be better able to adjust programs to account for services already available within the district from other sources.

The first step in establishing appropriate staffing and funding needs is to define field office activities by formulating a strategic business plan.

Foreign Offices

Like district offices, FCS posts seem to be overwhelmed with the tasks at hand. Market intelligence, trade promotion, counselling, and seminars are all part of the role of the Foreign Commercial Service. Whether the post is in Seoul or Bonn, the program is much the same, even though the business environments and cultures are quite different. A draft of a report by the General Accounting Office has indicated that "poor event selection, marketing, and recruitment and a lack of accountability for either positive results or failures" have limited the credibility of the trade administration.[7]

Foreign posts often seem more directed toward filling a booth at an exhibition than ferreting out true opportunities for U.S. exporters. As with district offices, ***the foreign posts should be given the opportunity to set their own objectives.*** These objectives should be commensurate with post needs and abilities, while operating within a comprehensive marketing plan comprised of substantive activities. We have noted instances where, although the post lists a high activity level in their action plan, post events have received little support. In fact, the GAO study cited above noted that one of the greatest sources of confusion abroad is cancellation of over half of all scheduled trade shows promoted by the Commerce Department.[8]

Foreign posts should thus be more concerned with export development than export promotion. As defined in the Foreign Affairs Committee Staff Report (cited above), ***export promotion*** *is an informational approach aimed at "increasing the overall visibility of a product or products in a foreign market . . .* ***export development*** *focuses on all factors which impact the success of an export in a target market."*[9] Foreign offices would be far more effective, given a more comprehensive and coordinated strategy.

The foreign posts are similar to district offices in another way: their value is found in their staff. The quality of service found at these offices can be inconsistent: at times it is outstanding, other times wanting. We have observed a number of foreign posts staffed by Foreign Commercial Officers (FCOs) unfamiliar with their markets and Foreign Commercial Nationals (FCNs) not given the opportunity to perform to their abilities. Careful consideration should be given to the skills and abilities of FCNs and the FCOs in establishing assignments and awarding promotions. The problem is one of quantity as well as quality. As the *Journal of Commerce* pointed out in a recent article, the number of FCOs based in U.S. embassies and consulates has dropped 8 to 9 percent over two years to a total of 175.[10]

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[7] Farnsworth, Clyde H., "Numerous Faults Found in U.S. Trade Promotion." The New York Times, 29 September 1988

[8] Farnsworth, op. cit.

[9] House Foreign Affairs Committee, op. cit., pp. 2-3

Programs[11]

In general, US & FCS programs seem to be administered on an ad hoc basis, rather than in terms of strategic goals. While many of the programs themselves may be worthwhile, they are not effectively implemented. For the most part, effectiveness could be increased simply by better manipulating budget and staff allocations to meet specific marketing objectives. The following program recommendations suggest how marketing priorities could be established to better allocate resources.

Summary of Program Recommendations

Commercial Information Management System	**Support; Provide direct access**
Comparison Shopping Service	**Support; Establish two-tiered program**
Agent/Distributor Service	**Restore full support**
Trade Opportunities Program	**Support; Improve quality of leads**
Commercial News USA	**Privatize**
Trade Fairs	**Revise planning and methodology**
Matchmakers and Trade Missions	**Curtail**
Catalog and Video Shows	**Curtail; Improve trade lead evaluation**
Foreign Buyer Program	**Delay; fully fund priority projects first**
Market Development Cooperator Program	**Delay; fully fund priority projects first**

a. MARKET RESEARCH

The Omnibus Trade Bill mandates the development of an international trade database. This database is to be developed in consultation with states and the private sector -- and be made directly accessible, at a reasonable cost, to all interested parties. We urge the administration to give this project high priority and we look forward to working with the federal government on the design and implementation of the database. Until that time, however, we have the following recommendations for existing programs.

Commercial Information Management System (CIMS)

The long-awaited Commercial Information Management System is an electronic database system designed to disseminate commercial information to U.S. exporters.

The idea behind CIMS is enticing, and the system will be helpful if the information is up-to-date, accurate, and reliable. However, based on CIMS' track record so far, there is little reason for optimism. Moreover, despite claims of full on-line status, some district offices lack the proper equipment to use CIMS, while others complain about the lack of content and the long hours involved in accessing the system. The GAO report cited that yet to be resolved are "many technical, management and resource problems. Overseas staff... had very limited knowledge of why the Commercial Information Management System was created, when it would be implemented overseas, how it would work, and what benefits were expected."[12]

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[10] Lee, Cristina, Journal of Commerce, 15 August 1988

[11] Program descriptions are drawn, in part, from House Foreign Affairs Committee, op. cit., Appendix: Programs and Services

The CIMS implementation plan originally called for making the system available to state trade development agencies. This proposal was recently dropped despite widespread favorable response. ***We would like to see CIMS made available on-line through COMPUSERVE, DIALOGUE, or other database service.*** Besides increasing the availability of the service, direct access would alleviate the burden on office staff.

Comparison Shopping Service (CSS)

The CSS provides U.S. firms with custom market surveys for specific products in selected countries. This comprehensive service provides information on product marketability, competitors, pricing, marketing and distribution practices, and trade barriers.

We know of instances where this service has proved quite helpful, yet many small firms balk at the $500 cost. On the other hand, many larger firms take full advantage of the service. In either case, some firms do not need all the information which a full CSS search provides. Moreover, demand for this service in some posts far exceeds the staff's ability to produce the reports, putting added strain on already scarce resources.

We therefore recommend a two-tiered Comparison Shopping Service. A limited search would be conducted for around $250 and the cost for a full search would be allowed to more accurately reflect market rates. The key to this plan is increased pricing flexibility. Such a system would have a number of advantages: it would 1) increase accessibility for smaller firms, 2) allow greater flexibility in responding to requests, 3) reduce staff time spent in conducting searches, making the system more efficient. ***Because of the proven value of this program, demand for the Comparison Shopping Service should be a key factor in staffing and resource decisions.***

b. FINDING OVERSEAS PROSPECTS

Agent/Distributor Service (ADS)

ADS is a customized search for interested and qualified foreign representatives for a client firm's product. The US & FCS identifies foreign prospects who have examined the firm's product literature and expressed interest in representing the firm's product overseas. The client firm then receives names, addresses, and comments for six contacts, and US & FCS provides additional assistance with contacting and working with these representatives.

This service is one of the most valuable federal programs. It has consistently provided top-rate information and identification of prospective business partners. Unfortunately, it can no longer provide adequate service because of staff cuts. ***The importance of ADS must be recognized and its resources restored.***

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[12] Farnsworth, op. cit.

Trade Opportunities Program (TOPS)

TOPS collects the trade leads identified by commercial officers around the world and makes them available to the business community.

A trade lead distribution system is a fundamental component of all export assistance programs. However, trade leads provided by this program in the past have been old and, for the most part, useless. Thousands of "leads" generated by routine inquiries at catalog shows, for instance, are of little value. These facts, along with a misunderstanding of what a trade leads system offers, have probably made TOPS the most "bashed" of all Commerce programs. Allowing the public to access TOPS should help, but the program must overcome a very negative perception.

To help TOPS fulfill its key role in promoting U.S. exports, Commerce must focus on the following objectives: *1) ensure that TOPS leads are current and represent true opportunities for U.S. exporters, 2) educate exporters in the use of TOPS and other trade lead programs, examining what trade leads can and can not do, and 3) advertise the existence of TOPS so that firms which can be helped by lead information are aware of its existence.*

Commercial News USA (CNUSA)

Published ten times a year, CNUSA is the export magazine of the US & FCS. It emphasizes new products and technology and the participation of new-to-export, new-to-market firms. It is distributed by foreign posts to 100,000 business readers world-wide.

Though the quality of this publication has declined since its inception, it is still useful for new-to-export firms. We find that CNUSA is too worthwhile to cut, yet it might be too expensive to maintain a quality publication.

We suggest Commerce seek a private sector entity to take over the publication and give it a more professional image. This might include special advertising sections and regular target industry editions. Commerce could underwrite the cost until an agreed-upon time when the publication would become self-funding.

c. ACTIVE MARKETING

Trade Fairs

International trade shows are the best method for helping new-to-export and new-to-market companies gain access to foreign markets. The major objective of Commerce is to increase the number of U.S. companies exhibiting in overseas trade shows. Commerce has not, however, effectively discharged this responsibility. ***To correct this problem, Commerce must 1) resolve the serious cancellation problem cited above (p.11) and 2) redefine its role in facilitating a successful experience for new-to-export firms.*** This means more than market briefings: ***FCS should aggressively focus on introducing U.S. firms to qualified and appropriate buyers, as well as providing technical guidance and legal advice.***

The status of U.S. Pavilions should also be better coordinated. In some trade shows, for example, there have been more than one U.S. Pavilion -- whether Commerce U.S. Pavilions, certified privately organized pavilions, or non-certified pavilions. At food shows, the Foreign Agricultural Service plans booths which are totally different from the seafood booths for which US & FCS is responsible. In such instances, the effectiveness of the U.S. pavilion concept is undermined, effort is duplicated, and resources are wasted. In short, ***Commerce must be aware when the FAS or the private sector is planning a pavilion and should actively seek to reduce instances of multiple effort.***

Matchmakers and Trade Missions

Matchmaker Trade Delegations match U.S. companies with buyers or prospective joint venture / license partners who share common product or service interests. US & FCS also leads various trade missions to bring U.S. business people into direct contact with foreign buyers, agents, and distributors for select product lines.

Matchmakers are successful in specific instances -- primarily when a limited number of firms are taken to less-developed countries where industry-specific trade shows are unavailable. In addition, such events are only effective if a thorough analysis of buyer and seller takes place before the event; yet the sheer size of recent matchmakers, especially coupled with staff shortages, has made this impossible. These can be valuable programs when used selectively, but at present are straining resources.

Matchmakers and trade missions should be more selectively utilized, recognizing the role they were designed to fill.

Catalog and Video Shows

These exhibitions are organized as displays of product literature or as videotape presentations of equipment in operation.

While these events are low-cost and thereby relatively flexible, they have also been affected by staffing problems. We must emphasize, however, that because of their nature, such shows should only be used in developing countries or secondary events. Catalogs which are simply placed in racks and displayed at major shows make little sense. In any case, the present method for conducting these shows generates large numbers of useless leads: even business cards obtained while answering routine inquiries about catalogs are recorded as leads.

We therefore recommend that catalog and video shows be more selectively utilized. In addition, more attention must be given to evaluating inquiries before posting them as trade leads. By using these programs more selectively, resources can be transferred to other programs. When these shows *are* organized, more thorough evaluation of trade leads will then make the shows far more effective.

Foreign Buyer Program

Under the Omnibus Trade Bill, Commerce is directed to support domestic trade shows which attract foreign buyers. Six million dollars have been authorized for this program and the Market Development Cooperator Program.

We firmly believe it is more effective to take new-to-export firms to trade shows overseas. Given budget constraints and the need to prioritize programs, ***we recommend delaying the implementation of this program until priority programs are fully funded.***

Market Development Cooperator Program

This program would provide funding, on a matching grant basis, for activities designed to promote and market non-agricultural products. It is patterned after a simiiar program already in place for agricultural products.

We recommend delaying the implementation of this program until priority programs are fully funded.

2) Bureau of Export Administration

U.S. exporting has been hindered by the notoriously slow and cumbersome export licensing process. In addition, U.S. firms are at times denied export licenses, only to discover the same product sold by foreign competitors.

RECOMMENDATIONS

Given the importance of our high technology industry, we applaud the efforts made by BXA to make the licensing process work more efficiently. Major delays are still encountered when applications require referral to COCOM, or other agencies, particularly the Department of Defense. In just the past year, however, we have observed major improvements in license handling times on the whole. Most of these improvements were achieved through paperwork reduction and automation.

Another positive development was the recognition by Commerce and Congress that certain key high-tech areas required the presence of on-site licensing experts to provide assistance and access to the export licensing process. We are pleased with the success of the recently established Western Regional Licensing Assistance Office in California. The large and growing volume of calls and visits from exporters and potential exporters from the entire western region demonstrates a strong need for the existence of this and other outreach offices in key high-tech areas. ***The trade bill authorizes the creation of additional offices and we urge support for their establishment.***

On the policy side, California strongly supported the sections of the trade bill which streamlined export controls and we urge further action in this area to improve U.S. competitiveness in world markets. While recognizing and endorsing the need to protect our national security through controlling the export of critical goods and technology, ***we support continued unilateral and multilateral (COCOM) efforts to streamline and rationalize the process.***

3) Small Business Administration

The Omnibus Trade Bill provides increased authority and funding ($3.5 million) for the SBA Office of International Trade. Five million dollars in new grant funds are authorized for Small Business Development Centers to provide export assistance and information at the local level.

These developments are troubling and unjustified. The SBA export assistance mandate involves SBA in areas where federal funds could be better spent on the U.S. & Foreign Commercial Service. The irony of the present situation, though, was recognized in the House Foreign Affairs Committee Staff Report:

> *The San Francisco [US &FCS] district office is another example. It is operating at 60 percent of its allocated personnel and budgetary ceilings... the Small Business Administration had opened a well-financed office next door to promote exports for small business (their budget for FY 1988 is $8 million). The major service provided to its export clients is to refer them to the US & FCS next door. The US & FCS San*

Francisco is still required to take referrals from the Small Business Administration even though it is clearly working with fewer resources.[13]

RECOMMENDATION

Commerce export promotion programs were created to assist all U.S. firms, but most especially small and medium-sized firms. Commerce offices have the experience, resources, and world-wide network to provide export assistance. Moreover, the private sector has complemented Commerce efforts through numerous export seminars and counseling programs. ***We recommend, therefore, that the export-related budget of the Small Business Administration be transferred to Commerce's International Trade Administration.***

4) Export-Import Bank

Lack of export financing is a key impediment to trade. After obtaining an order, exporters are often unable to deliver without outside financing. However, many banks are unwilling to support the overseas sales of small and medium-sized firms.

This is due partly to the transactional risk assessed by banks. Given our experience gained from the Loan Guarantee Program operated by our California Export Finance Program (CEFP), such transactions are not highly risky. Within the history of over 100 CEFP guarantees, only one transaction failed -- and we were able to recover most of our loss.

Therefore, we feel that transaction size is the primary reason for bank reluctance. Understandably, banks are faced with fixed costs for export financing. On the other hand, approximately half of annual export shipments are valued at less than $5000[14]. Such transactions play a primary role in expanding international trade, yet their value is relatively small. Lack of financing support for small exporters means millions, perhaps billions of lost export sales annually.

We have experienced some success in California with agreements between our Export Finance Program and the Eximbank and FCIA. However, there are still areas of both policy and practice where Eximbank and FCIA can work more closely with many states to improve delivery of financial assistance to the small exporter.

One limitation in most state financial export assistance at the present time is state-imposed funding restrictions. These restrictions, necessary for fiscal reasons, impact the financing which may be provided to a given exporter for a specific export transaction. In California's case, the maximum guarantee amount is $350,000 per transaction, supporting loans of up to $411,000. This amount, while significant, is often insufficient to provide the necessary financing for a specific transaction.

RECOMMENDATIONS

We encourage expansion of the Eximbank "delegated authority" program. Delegated authority permits designated banks to issue loans of up to $300,000, backed 90 percent by Eximbank, without express Eximbank approval.

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[13] Foreign Affairs Committee, op. cit., p. 18.

[14] Stroh, Leslie, Publisher, The Exporter.

This program is, however, limited by the $300,000 maximum guarantee, which is too small to interest most banks which qualify for Eximbank programs. Increasing the delegated dollar authority amount would attract more banks to the program.

Delegated authority should also be extended to qualified state agencies. In this way, states could assist in larger transactions, greater flexibility would be achieved in provision of export financing, and a smoother division of labor would exist between state and federal programs. State agencies understand specific markets, and by tapping Eximbank's resources, these agencies will be able to deliver their services more effectively.

5) Office of the U.S. Trade Representative

We have discussed above the need to concentrate export promotion funding and program authority in the Department of Commerce. In these times of both scarce budget resources and expanding trade opportunities, the federal government must renew its commitment to trade expansion and focus its energies on the most effective programs. These renewed trade promotion efforts are dependent on a coherent approach to trade policy which encompasses bilateral and multilateral trade negotiations and market access improvement measures.

Currently, trade policy negotiation responsibilities are split among several agencies. This has resulted in inconsistent and erratic U.S. response to restrictive trade practices. U.S./Japan trade relations are a prime example of the impact of split negotiating responsibilities.

RECOMMENDATION

The primary change needed to improve our trade policy formulation process is to enhance the standing of the Office of the U.S. Trade Representative within the federal hierarchy. The Omnibus Trade Bill addresses this issue to a certain extent, but true change must be mandated by the President. Coordinated trade policy affects and is affected by so many areas of national priority -- foreign policy, national defense, economic development, and job creation -- that ***the President must consistently affirm that the USTR is the lead agency in trade policy formulation and implementation.***

By acknowledging the interrelationship between trade, economic, defense, and foreign policies, USTR's role as a vital and equal partner at the highest level can emerge.

III. CONCLUSION

The relationship between the state and federal governments in the conduct of international trade is evolving. The 41st President of the United States will be in a unique position to determine the nature of that evolution, and guide the nation along a path toward expanding both U.S. and world trade. The new administration must pay serious attention to improving U.S. international marketing assistance, export financing, and trade policy formulation.

Job opportunities and economic development are boosted through trade expansion; this provides clear justification for renewed support of federal trade programs. We believe that a well-run trade program is not only self-supporting when its full benefits are analyzed, but the trade it stimulates provides the backbone for sound economic development.

The respective roles of state and federal governments in the conduct of international trade must be clearly defined. While states may be better suited to administering certain programs, this does not relieve the federal government of its responsibility to play the major role in export development.

States are responsible for creating the capacity and conditions for economic development and trade. States must provide the infrastructure, competitive technology assistance, and an educational system that enhance the nation's competitive edge. In addition, states can supplement federal trade promotion and export financing programs.

The federal government, in turn, should renew its commitment to a strong trade program. Scarce resources must be spent most cost-effectively: we would prefer to see fewer, yet strongly budgeted and well-run, trade programs than a scattered effort.

U.S. Senator Daniel Webster once declared that the acquisition of California and New Mexico was "not worth a dollar." While vindicating the state, Californians have learned a lesson. Our state has risen to prominence through hard work, a belief that we can achieve the impossible, and a strong, steady commitment to the international distribution of California goods and services. We look forward to working with this nation's next administration to expand opportunities around the world for the American people.

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APPENDIX D

CALIFORNIA INTERESTS IN U.S.-ASIA TRADE ISSUES

JAPAN

Beef and Citrus: Intense negotiations convinced the Japanese to phase out beef and fresh orange import quotas over a three-year period beginning in 1989. Japan will also phase out its Livestock Industry Promotion Corporation's import management operations, facilitating distribution and marketing of U.S. products.

GATT-11: In August 1988 Japan agreed to eliminate its import quotas on seven categories of products and provide substantial liberalization on four other categories of processed foods including noncitrus fruit juices, tomato sauce and catsup, dairy products and food preparations. The relaxation will take three years and comes only after a GATT challenge of Japan's quota system.

Supercomputers: The U.S. and Japan agreed in August 1987 on new procedures for the Japanese government's procurement of supercomputers. The new procedures should reduce a bias that has virtually excluded U.S. products from Japan's public sector market. U.S. exporters made two major sales to the Japanese public sector last year under the new terms.

Semiconductors: In 1986 the U.S. and Japan concluded a bilateral agreement to settle U.S. industry complaints about both lack of equitable access to the Japanese market and "dumping" into the U.S. and third countries. However, in 1987 the President found Japan breached its obligations under the agreement, and he imposed sanctions on $300 million worth of Japanese products. Japan then reversed its policies and complied with the dumping provisions of the agreement. But U.S. firms still have not achieved satisfactory access to the Japanese market, so the sanctions remain in effect.

Science and Technology Agreement: A June 1988 agreement on Science and Technology replaces a 1980 agreement after seven rounds of negotiations. The new agreement strengthens bilateral S&T collaboration and provides comparable access to each nation's respective R&D system. It also covers intellectual property rights protection and security concerns.

Major Construction Projects: The U.S. and Japan exchanged letters in May 1988 outlining conditions for U.S. access to major Japanese construction projects. The agreement sets out open, non-discriminatory procedures letting U.S. firms into the bidding process. It gives U.S. companies access to more than $16 billion in major projects over the next 10 to 15 years.

Wine: Negotiations in 1986 and 1987 led Japan to reduce wine import duties from over 30 percent to 21 percent, but failed to alleviate Japan's discriminatory taxes on alcoholic beverages. In October 1987 a GATT panel, responding to EC and U.S. inquiries, ruled the taxes illegal. The Japanese Diet is considering a proposal to restructure the alcoholic beverage excise tax and abolish the ad valorem tax and replace it with a flat tax.

Automobiles: Voluntary Restraint Agreements (VRAs) have limited Japanese auto imports to the U.S. since 1981, and will continue at 2.3 million units in 1989. The Japanese Diet is now considering tax reform that would replace an existing luxury tax on autos with a three percent consumption tax.

REPUBLIC OF KOREA

Tariffs: A 1985-1988 U.S. campaign to open the Korean market yielded tariff reductions on more than 500 products including cosmetics, photographic film, computers, telecommunications equipment, automobiles, and certain agricultural products. A more relaxed tariff quota plan on feed grains and PVC resins accompanied the tariff reductions.

Agriculture: Korea's agricultural trade policy is highly protectionist and bilateral consultations to liberalize this sector have moved slowly. Quotas, import licensing, and high tariffs limit U.S. food and beverage sales to Korea. The U.S. in mid-1987, hoping for more progress, abandoned its product-by-product talks and targeted Korea's entire import licensing system covering high value products.

Wine: A limited wine market opening began in October 1987, with quantitative restrictions scheduled for elimination by 1991. However, the U.S. initiated a Section 301 trade complaint in June 1988 alleging that high tariff rates, quotas or bans, discriminatory taxes and restrictions on U.S. wine distribution, marketing and bottling prevent meaningful market access. Consultations are ongoing.

Beef: The U.S. is pursuing a more open market through both bilateral efforts and through the GATT. Import quotas and an import monopoly greatly limit a potentially lucrative beef market in Korea.

Telecommunications: In July 1987 Korea cut its telecommunications equipment tariffs from 20 percent to 15 percent and announced plans to cut tariffs further to eight percent by 1993. The tariff reductions, combined with relaxation of foreign investment restrictions, equipment certification and corporate regulations should ease entry into the market.

TAIWAN

Tariffs: Since 1985 Taiwan has significantly lowered its import tariff barriers on about 80 percent of dutiable items. As a result, Taiwan's nominal average tariff rate fell from 20 percent at the beginning of 1987 to about 12 percent in 1988.

Intellectual Property Rights: Taiwan's protection of intellectual property has significantly improved in recent years with copyright, patent and trademark law revisions. However, problems remain with interpretation and coverage of new rules. The U.S. is negotiating with Taiwan a revised bilateral copyright agreement that would correct current deficiencies in protection.

Banking: Since 1986 Taiwan has allowed limited entry of foreign banks and allowed relaxed limits on length and scope of loans. It plans to allow expanded savings and trust activities for foreign banks in 1989. The U.S. seeks removal of other restrictive capital requirements for foreign banks.

Securities: In 1988 Taiwan took several steps to liberalize the securities sector. Taiwan now lets foreign firms invest in new joint venture securities firms and lets foreign investors invest in the domestic securities market by way of mutual funds issued abroad. The U.S. seeks further relaxation to allow foreign securities firms to market, distribute and manage foreign securities and reduce equity restrictions.

Insurance: Taiwan has made significant progress in opening its insurance market to U.S. firms. Currently three U.S. property firms and casualty firms and two U.S. life firms have branches and enjoy virtually full national treatment. Another four firms received branch office licenses in March 1988. A proposed amendment to Taiwan's insurance law in 1989 could eliminate a yearly limit on the number of U.S. entrants into the insurance market.

Motion Pictures: As of July 1, 1986 Taiwan eliminated the foreign film import quota system, the special film import levy and limits on importing reissued films. The film import entertainment tax was also reduced in 1986 and lowered to 15 percent in July 1988.

Senator CRANSTON. The next panelist if Mr. David Lam, vice president, WYSE Technology; director of the Asian-American Manufacturers Association.

Please proceed, sir.

STATEMENT OF DAVID K. LAM, VICE PRESIDENT, WYSE TECHNOLOGY; DIRECTOR, ASIAN-AMERICAN MANUFACTURERS ASSOCIATION

Mr. LAM. Mr. Chairman and fellow panelists and guests. I would like to compliment Senator Cranston for his leadership as the chairman of the Subcommittee on East Asian and Pacific Affairs of the Foreign Relations Committee. I welcome the opportunity to assist the subcommittee to formulate a policy for Asia and to speak out on my concerns. I want to take this opportunity to focus our attention on the Asia-Pacific countries outside of Japan.

The United States is not well positioned to participate in Asia-Pacific economic development. I see we are missing a great deal of opportunities there. And I feel we must do something and do it quick.

Asia has already exceeded Europe as trading partner of the United States. And I read recently that California has exceeded New York in the number of registered companies doing international business. But why are we so slow in recognizing the opportunities in the Asian-Pacific region? I think we are probably a little uninformed, sometimes misinformed, and other times too preoccupied with our own problems.

The way I look at Asia-Pacific is this: If you have a reasonably intelligent people like the Asians, who are rather resourceful and very industrious, and if you leave them in a rather peaceful and stable environment, they are going to improve their lives, improve their economic fortune. And that means investment and business opportunities for developed countries, such as the United States. And, on top that, as some of the earlier panelists, particularly the two distinguished professors from UC-Berkeley and Stanford so eloquently pointed out, the today's governments in Asia deemphasize political doctrines and military adventures, and emphasize on economic development.

What we are seeing now is that most Asian-Pacific countries are going fast, in high single digits or double digits in percentage, for the last few years. And each and every time I go to Asia—and I go there, maybe about five, six times year because of my business—I see a major economy growing, something that the United States has to recognize and reckon with. Each and everywhere I go, I see opportunities to invest. I see opportunities to sell products and some older technology that we have here in the United States, which are still extremely useful to them as developing countries.

With all these products we can sell, we often find that, as small companies—and particularly as Greg Mignano just pointed out earlier—we need support from the Government in many ways. We need to simplify export procedures. We need financial support for some small companies which are struggling to develop products to export.

When we have old technologies which large companies often scrap, throw away, and write off, we find that there are a lot of companies in Asia which are looking for factories and production lines to buy. And by facilitating the sales of some of the older product lines to Asia, we make friends, we make money, and we position ourselves for future business.

At this point, I would like to echo Lt. Gov. Leo McCarthy's earlier remark. Asian-Americans in America is an asset—an asset that is not well utilized at this time. If you'd take a look at the high ranking officials in the Federal Government, people who in positions of making policy, you'll find there are very few Asian-Americans. And, in the third century in which the Asian economy will become a major economy in the world, I think we are missing a great deal of resources right here at home which can help us develop our position in the Asian-Pacific.

I would like to take a moment to point out to you to some recent events that I have been personally involved with.

Last December, as a director of the Asian-American Manufacturers Association, I chaired an event we call United States-Hong Kong Technology Business Conference. We recruited about 35 companies from California, most of which are small and medium sized. We organized the event with the Hong Kong government's Industry Department, and they gave us a lot of help. We ended up in December, taking 50 people, representing these U.S.-based companies, to a 1-week conference. We wanted to use the first 2 days to understand what is happening in Asia, because so much has been going on and so fast.

Senator **Murkowski**. Mr. Lam, I must remind you that you are approaching your 7 minutes; but, please, kind of wrap it up.

Mr. **Lam**. And, then, the remaining time to visit factories, both in Hong Kong and in China.

Last month, I was invited to speak at the Asian-Pacific Venture Capital Conference in Hong Kong. And, again, I was very surprised to see the way they utilize their venture capital. They use venture money to develop old companies and industries, which have formed the backbone of the industrial scenery in Asia, and to bring them along and uplift themselves technologically.

Now, in conclusion, I must state that I am no expert in the economic and security affairs, which is the topic of today's meeting. I am only a businessman. I don't know all the reasons why we aren't doing enough in Asia. And I don't have all the answers, even when I think I know the reasons. But I am always frustrated when I see opportunities are passing us by. So, I look forward to sharing more of my opinions and observations on any specific questions with the panel.

Thank you.

Senator **Murkowski**. Thank you very much, Mr. Lam.

And Senator Cranston stepped out very briefly, I thought we would open up the panel to a series of questions, some of which are prepared and some of which have to come to mind as a consequence of the discussion. And I am going to take the prerogative to attempt to limit the panel to about 3 minutes in a response; but, sometimes, we get a spirited discussion going. Depending on how spirited it is, we will have to curtail it even less than that.

First of all, let's kick around a little bit an issue that has been presented by many of the panelists, and it is an issue of foreign investment.

I am a banker, by profession, for some 24 years in Alaska, and we do a lot of business in the Pacific Rim countries. But, clearly, money flows to the highest return and the least risk; and, as a consequence, why, America today is a very attractive place to invest. It is no secret that a portion of that investment is coming in and financing our deficit. But the reality of foreign investment I think has to be examined a little bit. Because some of that investment is not just foreign investment in the strict sense of the word; but, in reality, foreign government investment that is coming in through legitimate foreign investment. But, by the same token, makes it pretty difficult to compete with.

To start the subject off, let's do it a comparison of something that recently occurred where had a decision made by Great Britain and their Monopolies Board, where they indicated that the 29 percent interest in British Petroleum by the Government of Kuwait was not in the interest of Great Britain and required that the Kuwaiti Oil Co. dispose of 29 percent down to about 9 percent. It created quite a stir and BP had to sell some of their assets.

But my point in throwing this question out to the members of the panel is: We cannot tell in the United States, realistically, the difference between foreign government-backed investment through a foreign investment company and legitimate foreign investment because we don't have the reporting capability to do that. And, while we are concerned about it, we are afraid that, if we initiate such detailed reporting, it will require a signal that will be misread, perhaps, and indicate that we don't welcome foreign investment or we will be curtailing foreign investment. But my general question is: Do you feel that we need to have that distinguishing capability, or should we just ride with it? You know, if a foreign government comes in and takes the position through guaranteed financing at lower rates—you know, there are all kinds of areas and degrees which we can get into it, and, at certain points, it becomes very, very difficult to compete.

Tom Perkins, why don't you start out on that and get our dander up or down, or in between.

Mr. PERKINS. Well, I am a great believer in the free flow of capital, and I think that's the major thing that is going happen in Europe in 1992, which will be all to the good. So, I am not concerned about foreign investment in the United States at all. I think I would encourage it. We haven't, in my particular businesses, sought it out and we don't have much of it. But I don't see any real problem in having it and encouraging it.

Senator MURKOWSKI. Do you distinguish between foreign government investment and foreign investment, as Great Britain did?

Mr. PERKINS. I wouldn't make that distinction. The Kuwaitis have offices in the United States and invest literally billions of dollars a year in various industries, and so forth, in our bond markets and our stock markets. I see no problem with that.

Senator MURKOWSKI. So, if the Kuwaitis, say, bought substantial interest in our downstream refining capability in the United States, to the point where they controlled a good deal, it is not of interest in the sense of our strategic energy commitments, that we should——

Mr. **Perkins**. Well, in the sense that they buy them and shut it down, you mean, or something like that?

Senator **Murkowski**. No, they buy it and control it.

Mr. **Perkins**. Well, I don't see any problem with their buying and controlling. In Europe, they are marketing a gasoline called Q-8, Kuwait, very successfully. I don't see any problem with it.

Senator **Murkowski**. Well, the only difference is that, and I don't want to be argumentative, but Great Britain obviously did see a problem in it. And we are seeing more and more ownership of our refining capacity by foreign interests, some of which there is reference to the suggestion that they are foreign government control.

Thank you.

Anybody else want to comment?

Mr. **Levine**. Senator, if I could just elaborate on the question—and I'm very interested in hearing the answer to this because a bill on foreign disclosure will be coming before the Congress next week. At least it has been scheduled for vote in the House next week, and I am not quite sure when the action will be taken in the Senate. But it is an imminent legislative proposition.

At yesterday's hearing in Los Angeles, Prof. Chalmers Johnson—who is a colleague of Professor Scalapino's for many years at Berkeley, and who is now at San Diego, UC-San Diego—came out very, very strongly and vigorously for much more extensive foreign disclosure legislation. His argument wasn't so much in terms of limiting foreign investment, but rather that we need more disclosure of foreign investment. His assertion was that we currently have inadequate disclosure and we simply aren't able to make informed judgments unless we have the information on the table.

So, my first question, really, and I would like to address this also to Tom Perkins, is just a question of the need for disclosure itself, without talking about limitation; and, then, I would also ask whether there are some essential industries—oil, some defense facilities, communications facilities—are there certain industries for which limitation may be appropriate? I am interested both in the area of the adequacy of disclosure across the board, and also whether we ought to think of limiting investments in some strategic areas.

Mr. **Perkins**. Well, I think the disclosure is essential—perhaps for a different reason, and that is: To make sure they pay their taxes. [Laughter.]

As you know, one of my things is that there should be some advantage toward the investment side or capital, and I would like to see a lower tax rate on—or at least some differential between income tax and capital gains tax. But, for many years, the foreign investors have paid no capital gains tax, whatsoever, because we didn't know who they were, what they were doing, and so on. So, I think for those reasons there certainly should be disclosure.

When you talk about national security, to the extent that we need a strong semiconductor industry for national security, we are in great trouble. Because, really, the highest level of technology is now in Japan, not in this country. And, even though American companies can be successful in semiconductors—I am on the board of directors of LSI Logic. We have the largest market share of the so-called ASSC, or application specific semiconductors. And our next five competitors are all Japanese. The reason we are successful is we manufacture the parts in Japan. So, we are, in effect, a Japanese company.

Senator **MURKOWSKI**. Can we move it along a little bit here. I think, Leo, you wanted to get in on this.

Lieutenant Governor **MCCARTHY**. Senator, I would have very little with the free flow of foreign capital into America to acquire American companies, with the single reservation of any very clear direct threat to our national security. But I wonder if the question should be: Is there a mutuality? Can American companies similarly acquire ownership in a broad range of companies, whether it is in Japan or France or wherever it may be? And maybe those are useful criteria that we should be using in establishing the appropriateness of any foreign investment here. Whether they allow us to—because I think economic interdependence is very important. It can lower the risk of war; it can create a better standard of living for many people around the world. But I think that has to be a mutual kind of interdependence.

So, if we own certain important companies in Japan, I would be very comfortable of the Kuwaitis or Brazilians, or whoever we are talking about, owning important companies here. In the absence of that, however, if this is strictly a one-way ownership, and it is a sharp contrast, I would be very concerned about how much control we have. Not just over the American domestic market, but how much leverage and power we have to make sure America is strongly represented in all world markets.

Senator **MURKOWSKI**. I am sure some of the other panelists want to hit on this one. Let me just point out that, from the standpoint of those of in Government, we do not have in any one area the availability of knowledge of whether or not the foreign investment is really a guise for foreign government investment behind it. We cannot tell the distinction. There is a little information in Commerce; there is a little information in USTR, and there is a little information here. We don't have it put together. And the question is: Should we have the distinction; and, if so, under what terms? Paul.

Mr. **GIBSON**. I would like to make two points: The first is that I think it is very difficult to make a distinction as to what is a government investment. If you go to Taiwan, for example, China Steel, Bank of Communications, Taiwan Bank, Taiwan Power, all government owned, and yet they function as businesses and we deal with them everyday. So, that is the first problem we have.

It seems to me that, knowing what's going on, is essential. I think that is important. And I think the way to deal with this is, is on picking out specific industries—and we already have some: The airline industry has a restriction on it; certain media have restrictions—and take those strategic industries, like Boeing, or what have you, and say: OK, those are strategic industries and, therefore, a certain percentage should remain United States.

I would like to just comment quickly on Lieutenant Governor McCarthy's point there.

You know, in Japan, there is no restriction at all in taking over any company. The first rule in Japan in taking over a company is: You have to ask the employees whether they would like it or not. And the Japanese companies do it. The American company, of course, would never get that permission. Therefore, it is the Japanese culture that stops you. You don't have to worry about the law.

Senator **MURKOWSKI**. Anyone else care to get in on this?

Yes, John.

Mr. **LEWIS**. You are raising as an issue: How do we think about the relationship between economics and security? Congressman Levine made a proposal at the outset about trying to have the Secretary of Commerce on the National Security Council. I do think that, if that begins to happen, we are going to have to reconceptualize what we think about security. This has already happened with respect to some of the most obvious industries. We have studied the relationship between economics and security in the semiconductor industry and other electronics industries. But I don't think we have even begun to understand that relationship fully. I think disclosure is fine, but to establish a greater understanding of this relationship is critical.

Senator **MURKOWSKI**. Anyone else want to comment on this segment of the dilemma, of whether or not the Federal Government should have some capability to distinguish between foreign government investment and foreign investment?

Dr. **SCALAPINO**. Mr. Chairman.

Senator **MURKOWSKI**. Yes, Doctor Scalapino.

Dr. **SCALAPINO**. I join Paul Gibson in saying that I think even with full information—which is very important for the reason Mr. Perkins mentions, and for others—the distinction between foreign government and foreign industry is impossible to make.

Second, I join Mr. Perkins in saying that a sharing of technology is very different today from what it was 10, 15, 20 years ago, as far as Japan is concerned. In many fields, including very critical frontiers, Japan has technology in advance of the United States, and a sharing is to our advantage, if it is properly executed.

Third, and this is my final point on this matter, I think it is important to define those industries, using the term "strategic" in very broad terms, where it is essential to retain American control. And that, I think, is a complex matter which the Congress should look into with the involvement of staff and outside experts.

Senator **CRANSTON**. Let me ask if any members of the panel have any comments where you differ from what a member of the panel on the point during their presentation.

Yes.

Mr. **GIBSON**. Senator Cranston, I would like, forgive me, but I would like to broaden significantly the comment that was made about business and government cooperation. Certainly, speaking for a large group of businessmen, I think that is not only essential, but I think it has almost gone past the state when that is even a question anymore. It is obvious that we need that cooperation. But I think we need more than that.

What we—we are suffering today because we didn't have any long-term thinking earlier. And I would like to say that, what we need today in our cooperation kettle, if you like, is industry and government; but we also need universities and institutes. We have to get some people into this equation who think longer term and look out for the problems of tomorrow, rather than just what we are faced with today.

Senator **Cranston**. Anybody else have any comment on any statement made by any other member of the panel?

[No response.]

Senator **Cranston**. If not, I would like to ask of Mr. Scalapino or Mr. Lewis for any comments they might have on the likely outcome of the new Chinese-Soviet conversations and developments.

Dr. **Scalapino**. John suggested that he differed with me somewhat on this matter. Let me spell out my own views.

I think that trade and cultural relations between China and the Soviet Union will continue to grow, subject to the limitations that are economic in the case of trade, and other intercourse.

Second, I would make it clear that I favor an improvement in China-Soviet relations for these reasons: We have a greater chance of reaching some consensus with respect to reducing tension and moving toward solutions in crisis areas if there is a reasonably good communication between Beijing and Moscow. And we are already seeing that, on an issue like the Korean Peninsula, it is no longer possible for North Korea to play Moscow off against Beijing; therefore, there is a certain cumulative pressure which, in my view, is causing Pyongyang to rethink its policies.

The North Koreans are not moving in a somewhat new direction—very tentatively, to be sure—because they've gotten religion. They are moving in that direction for very practical reasons: First, because their economy is in terrible shape; second, because they are concerned about Sino-Soviet rapprochement and the general configuration of major power relations in Asia. And this is even more true in the case of Vietnam. The Vietnamese are almost desperately turning to us to come back. They want us to come back with money, of course; but they do want us back. This is a product, in part, of an improving Sino-Soviet relation.

But, perhaps where we might differ a bit is: I think there are certain limits to the Sino-Soviet relationship in the long term. I would argue that two empires that have to live cheek by jowl with each other, with no buffer state system, very different stages of development and culture, are rarely in an intimate relationship unless there is a common enemy. And I repeat: I don't see us playing that common enemy role again. So, I do not think we should be overly concerned about the development of Sino-Soviet relations. No return to 1950 is likely, in my opinion.

Mr. **Lewis**. Well, I agree with that. I think there is not going to be a return to the past.

There is an interesting thing, though, that is going on here. It is not that the North Koreans are gaining religion; they are losing their religion, in some respects. And that loss of ideological fervor is going on generally. What is developing between the Soviet Union and China is a very interesting pragmatic relationship, one quite unlike the religious or the highly ideological relationship they developed in the 1950's. They may create a relationship, unlike in the fifties, where they are going to deal practically with their differences.

In the 1950's, you know, they kept setting aside their differences. They didn't really engage on their differences. They kept putting them off. If you read all of the memoirs that are coming out now, by both sides, they say "In the fifties we didn't talk about what separated us, because what separated us in historical, cultural, or military terms might really have created a great problem for us."

Now they are engaging in a direct pragmatic way on what they need to do with each other, and there is a sense of excitement there that is quite important. Indeed, Deng Xiaoping has said his highest dream before he dies is to develop a united relationship between the Soviet Union and China. And that same thing has now been said by Gorbachev.

I don't think the relationship is going to be the same as the fifties, but I think it is going to be interesting and challenging. That challenge is almost the same kind of challenge that you are seeing throughout all Asia. It is not going to be special because it is Communist. It is going to be special because it is very new and dynamic.

Dr. **Scalapino**. Could I make just a point about North Korea? It will be very short.

I have always believed that we should, whenever it is possible, turn to informal relationships at the academic and other levels. Thus, I welcome the modest interchange between Americans and North Koreans; and, in the context of international conferences, I have, myself, been involved in such an enterprise. But, I think it is terribly crucial at this point that we not outdistance the South Koreans. It is their responsibility, first and foremost, to interact with North Korea and to move toward a dialog to see if the very great differences still existing can be bridged. And I think it would be a mistake if we put pressure on South Korea or if we took certain initiatives at this very delicate period of time. Just as I felt that, in the case of the Cambodian crisis, it was best to let ASEAN take the lead. And, whenever possible, to back ASEAN's position. And I feel very strongly about that in connection with the Korean Peninsula.

Senator **Cranston**. Mel.

Mr. **Levine**. I would like to explore, both with Professor Scalapino and Professor Lewis, one aspect of this set of relations between North and South Korea and between North Korea and the rest of the world.

Those relationships appear to me, at least on the surface, to be internally inconsistent. Each of you have talked about the reasons for some optimism, however incremental, in the openings from North Korea. At the same time, either or both of you mentioned—I know that Professor Lewis mentioned—the increasing Soviet military assistance to North Korea going on at the same time. And I would just be interested in each of your interpretations of what appear to be internally inconsistent activities.

Why is there a significant buildup of North Korean military force (*a*) from Soviet assistance, and (*b*) from North Korea internally, as well?

I understand that there are over 1 million men under arms in North Korea in a country that has some 18 million people at this point in time. And we do have very significant increases from the Soviets.

Why is that occurring at the same time that we have these hopeful signs? Are they apart of the same rubric? Is the one designed to hedge against the other? How do you interpret what appear to be internally inconsistent activities?

Mr. **Lewis**. First of all, what Bob said earlier is somehow partially related to this, and that is: One does not want to get out in front of the South Koreans on these issues. But, in fact is that the South Koreans are now way out in front of us. The South Koreans are pursuing their north-politic in a very active, creative way.

When I met with a number of Seoul's leaders, including the Minister of Reunification, this past December, they said: "Why aren't you moving faster in this area?" Because the United States is involved militarily, it is different from Kampuchea. You are involved and you can play a very important role in supporting what we do. Now, "supporting what we do" can mean trying to move toward arms control, trying to move toward some reductions of tensions and, in an incremental way, just reducing distrust. As you begin to do that, as we have begun to do in Europe, we can realize the possibilities for troop reductions, for monitoring of troop forces.

There is a duality here. On the one hand, you get peace initiatives and economic initiatives. At the very same time, you have a massive buildup of forces. We have one of the largest arms races in history going on in Asia and the Pacific; it is largely a qualitative arms race, to be sure, but it is extraordinarily important. What the Soviets, the Chinese, and now, very tentatively, the North Koreans and the South Koreans have said is: "Let's try to do something about that." Thus we have an opportunity to do something to reduce the possibilities for conflict, but this is not something that will just happen by itself.

Now, clearly, the Russians still want to have it both ways. They do not want to lose their leverage over North Korea. So, they are—as they are taking bold steps toward South Korea—at the very same time giving equipment that the Chinese cannot match. That aid is giving them important leverage on the Korean peninsula. The Chinese have a severe problem in trying to figure out how this affects them.

But all of this need not be threatening. Here I again go back to what Bob said—the Sino-Soviet coming together could help the situation in that it could provide the opportunity for all of the relevant actors to get at the problem of reducing arms.

Senator **Cranston**. How much of an actual buildup, in terms of more expenditures on arms, and more equipment, and do forth, is going on in North Korea?

Mr. **Lewis**. I don't know. I am suspicious of the figures. The country has 18 million people, half of them are women. Something on the order of 30 percent or less are in a the age group that you would say are the manpower pool for the army. So, that comes out, I think, if my calculations are correct, something like 3.2 to 3.6 million men. I have been everywhere in North Korea; I have been north, south, east, west, along the border, every place. I have talked to a lot of military people in North Korea, and you see an immense number of them involved in construction. If you look around the country, you see a great number of people involved in construction, and a very active program for developing the economy. Therefore, it is hard to know how at the very same time they are doing all that, they are taking 1 million men one-third of the pool, and putting them into active military service.

We all saw what was written in the Washington Post that said the north has increased its forces to 1 million. I don't doubt those figures, but I would like to look at them carefully.

Senator **Cranston**. Bob, you were shaking your head and want to ask a question.

Dr. **Scalapino**. I am not at all convinced that either the north or south are currently increasing their military strength. I think the figures that have been used—and there is doubt about their accuracy—is that, at least historically, the north has had about 800,000 in their military force; and the south, about 700,000, or thereabouts. Where the north is in very much greater strength is in their active reserves. They have kept an active reserve force that is quite substantial. Now, of course, you may remember that they announced that they were unilaterally reducing their armed forces by 100,000.

What has worried our commanders, and the South Koreans earlier, was that a very significant portion of those forces were near the DMZ; that they had been positioned in forward positions. And that was worrisome to many.

But let me say this: If you go back to Congressman Levine's point as to why the Russians are assisting the North Koreans, this must be viewed historically. During the 1970's, the Chinese had the greatest leverage in North Korea. And, in my view, the Soviet Union wanted to feed itself back into the Korean issue. One way to do this was through economic and military assistance, and that it has undertaken. But I would hasten to add I do not think there is any great intimacy between the Soviet Union and North Korea; and, indeed, I am not at all sure that the North Koreans are intimate with anybody.

It is important to signal one problems: In the DPRK, a system exists which is very close in political terms to a pure one-man rule. I do not mean that Kim Il Sung, who is now 76, going on 77, has control over day-to-day affairs. There is a new technocratic generation that is emerging into key administrative positions. But the final imprimatur on basic policy must still be placed upon this nation by Kim Il Sung. Concerning his son, Kim Jong Il, there is a considerable difference of opinion as regards his ability and steadiness, if I may use somewhat neutral terms. And, therefore, one of the interesting questions is: Can this succession be a peaceful one, a smooth one; or, is there the possibility of some upheaval?

Quite frankly, I think the greatest problem in talking about the Korean issue is to try to look ahead to see whether there will be political stability in both north and south. Because that is a variable that can effect not only north-south relations, but major power relations, as well. And it is a very difficult problem to predict.

Mr. **Gibson**. Mr. Chairman.

Senator **Cranston**. Yes.

Mr. **Gibson**. Can I ask a question also along this line?

Senator **Cranston**. Yes.

Mr. **Gibson**. Every time I go to South Korea and meet with any major companies, whether it is Hyundai or Samsung, and so on, it seems like the senior executives are in the PRC working on business.

Mr. **Lewis**. There are 3,000 of them in China.

Mr. **Gibson**. The staggering amount of economic activity going on between South Korea and China, and in almost everyone of the major deals, the minister for reunification is involved, and I am glad you mentioned that, John; but, you know there are very few countries that have a minister for reunification. [Laughter.]

They have one, and he is a damn good man and he is active as hell. So, before any of the Korean people go to the PRC, he is sitting down talking to them saying: "Here is what you can do to help get a better relationship with the PRC, which will help us with the north."

I would like to hear any comments on that point. I think that is very significant, the entree there that the South Koreans are making successfully with the PRC.

Dr. **Scalapino**. I think you are absolutely right. Trade between the PRC and South Korea last year was somewhere between $2 and $2.5 billion, according to most estimates. South Korean investment in China also is beginning. Moreover, the Soviet Union is interested in South Korea.

When I was in Kabaroosk, I met with the chamber of commerce. They hoped that South Koreans would come in and build a furniture factory to process Siberian timber. I think we are seeing this type of development—what I call soft economic regionalism—move dramatically across ideological and political boundaries. It is only beginning.

Senator **Cranston**. Could I switch to one other topic before we get toward the close of this session.

Incidentally, I want to welcome the diplomatic representatives of many of the countries that we are talking about. They are here and I hope they are finding this as fascinating and informative as know I am.

Regarding the growing Japanese economic power, what is anticipated; what do members of the panel see as the way that will be used for diplomatic and other purposes of the Middle East? How do we relate to that and what would be the view of the other Asian countries in the Far East?

Does anyone have any comment on that?

Mr. **Gibson**. Well, Mr. Chairman, I think there is no doubt that the Japanese Government is concerned about the maintaining their beautiful markets in the United States and in the EEC. They find the EEC tougher than ours, but not necessarily so. But I see much of their effort going to the other Asian countries, and they are doing this through the PEC, and there has been a staggering amount of people in Japan for training, and back and forth. So, they are really working very hard to create an OECD but for Asia. And every time we have a meeting with our PBEC group, the businessmen in Japan come with a very clear message from the government saying: "Can't we have an association like the OECD, but for Asia, which Japan will head."

So, I see them making a much more concerted effort to reestablish the old friendship alliance, if you like, with the Asians that have been coming in the other direction. They are going to continue in our market, but I think they see a problem and they are looking for a much tighter relationship with the rest of Asia.

Senator CRANSTON. Any other comments?

Dr. SCALAPINO. That is certainly true. It is also true, however, that Japan has, at our request, or at least with our support, given economic assistance for strategic reasons to certain countries outside East Asia, notably: Turkey, Egypt, and certain African states. As along ago as a decade back, the Japanese began to talk about comprehensive security, by which they meant their role should be primarily economic. They asserted that they could play a role in the overall security and peace of the region by using economic assistance.

In this connection, I would make two points: First, I think that it is incumbent upon Japan today—and its leaders are increasingly recognizing this—to couple with economic assistance a political role. No matter how generous and how untied economic aid is, Japan's image will not be a very good one if it is solely pursuing what appears to be a market foreign policy. This is one of the supreme challenges in the period ahead: How to involve Japan in certain political acts that will give it, and the rest of Asia, opportunities for a new relationship?

My own feeling, incidentally, is that the Japanese need not and will not become a major, independent military power. I think that fear is exaggerated. Not only do the Japanese people not want this—they know very well the rest of Asia doesn't want it. More importantly, the Asia of the 1980's and the 1990's is not the Asia of the 1930's. There is no power vacuum on the continent of Asia. There is no Japanese territorial empire to defend and, there are no Western colonies to liberate. When you look, therefore, at the total picture, I think we can have a more important relation with Japan if we will form, broadly speaking, the kind of group, Senator Cranston, you were talking about to look at the long-range issues.

I would also like to see a bilateral American-Japanese commission of a permanent nature with a mandate much broader than the Wisemen's Group. That should have a 9-year tenure for members so that they would have time to get an acquaintanceship with the basic problems; they should represent every segment of our society, business, labor, academics, journalists. It should have on it political figures as well, but not active administration officials. This commission would report to our respective governments. This is the way to move away from the present acrimony which otherwise is certain to increase in our relationship.

Senator CRANSTON. John, did you have something?

Mr. LEWIS. I would just emphasize what Bob says, and I would simply note that most of my contacts in Japan are with military officers and specialists.

I think that, as we pursue a new policy or a policy toward Asia that includes the Japanese, it would be very unwise for us to try to move the Japanese toward greater military spending or into using their military for more active roles outside the region. Such changes are not supported within Japan. But they see pressure for these changes coming from the United States on occasion. I would say such pressure is unwise, both for regional stability and for the Japanese themselves.

The Japanese see themselves in the same way we do. If you really had to defend the Japanese homeland, you would try to do it outside of Japan on someone else's territory. Therefore, you would not develop a defensive strategy. You would develop a strategy to project power. And nothing could be more destabilizing in the region.

So, as you think about the military what you want to do and to think is the resolving of disputes and the ending of crises. We should begin to do the kinds of things that Mr. Perkins and the other people are talking about: To develop new economic and political relationships with the region.

Senator CRANSTON. As I indicated at the outset, I will endeavor to get some suggestions, out of the ideas that have been generated in the course of these sessions, to President Bush, as he goes to Asia; suggestions as to things that he might seek to do there.

What I would like to do now is to put one question to each member of the panel, just going around the table. If you can respond in not more than about 2 minutes, I would appreciate it. What paramount recommendation would you want to make to Bush; what would you like to see him undertake, as the most important single thing he might be able to do while he is in Asia?

Can I start with Tom?

Mr. PERKINS. Well, I am afraid I always get back to the most important thing you can do is in Washington, not in Asia. I think there is very little he can say or do there, compared to what we can do to strengthen ourselves here.

Senator CRANSTON. Bob.

Dr. SCALAPINO. I would like to see us move toward a mechanism where we both share burdens and we share the decisionmaking process that leads up to burdens. I would like to see much more coordination or integration in that process with our allies, particularly with Japan and South Korea.

Mr. LEWIS. I would do that, because I think that it is critical. But—and what I will say is related, Senator, to what you are proposing and to my emphasis on arms control—I also would try to develop for Asia and for the Asian-Pacific region, as coherent and as active a policy for peace as we have tried to develop in Europe and other areas.

Senator CRANSTON. Leo.

Lieutenant Governor MCCARTHY. Senator, when you talk to President Bush, I hope you can persuade him, with the help of other Members of the Congress, to move the United States toward the creation of economic alliances, regional in nature, over the next 25 years, 40 years, much as we saw the need to create military alliances after World War II. There is no doubt that we have to keep an eye on how we try to keep the trend versus peace and the decline in military encounters going.

But I think we now need to understand the United States must see itself in a new economic role in this world. That requires a lot of actions in Washington, DC. Japan is a very special case. But we need special relationships with all of the emerging Asian-Pacific nations. We haven't even talked about Thailand and Malaysia, and some other countries. They are 10 years behind, but they are already showing incipient booming economies. And, it may be that we have an even better chance if we move now to create strong economic alliances with those nations, than we do with Japan and Korea. Although, obviously, I am not suggesting we ignore Japan and Korea. Move toward economic reliance and understand the Asian-Pacific in reaching some major accord for out future.

Senator CRANSTON. Thank you, Leo.

Mel.

Mr. LEVINE. Alan, yesterday Leo suggested that perhaps one of the most constructive things that President Bush might be able to do on his trip to Asia would be to take you with him. [Laughter.]

As long as Leo didn't mention that today, I thought I would.

I agree very strongly with Tom Perkins that the most important things that need to be done, need to be done in Washington and not in Asia. But, in light of the fact that the President is going there, if I could suggest one thing to him it would be that he make a judgment in Washington that economics will become a key, economics and trade competitiveness, will become a key national security issue and he communicate that to the leaders of Asia, as the President of the United States; and that, in that context, that you ask the leaders, particularly in Japan, what tangible steps they can take that we can be supportive of to reduce the bilateral trade deficit between the United States and Japan.

Senator CRANSTON. David.

Mr. LAM. I understand President Bush is visiting Japan and China?

Senator CRANSTON. And Korea.

Mr. LAM. And Korea. With respect to Japan, I hope the President will encourage the Japanese Government to play a larger role in their region to keep the stability and peace. I am terrified by the prospects of a rearmed Japan, however, because my parents have gone through years of war of Japanese invasion in China. I feel very uneasy everytime I hear someone in Washington pushing Japan to rearm. I just read the other day that the Japanese military budgets for the last 5 years have been increasing. I hope President Bush would not push that issue.

In the case of Korea and China, I would like to see our President encourage movement toward reunification, for North and South Koreas, and between China and Taiwan. These reunification negotiations and movements will reduce tension and may lead to long-term peace and stability in Asia, which is in everybody's interest.

Senator CRANSTON. Thank you.

Paul.

Mr. GIBSON. I think it is important for the President to get across to the leaders of these various countries in Asia that they cannot continue, or expect to continue, trade surpluses with the United States without making substantial concessions on trade investment restrictions. For example: no Pacific country has yet signed a bilateral investment treaty with the United States, not one. And, yet, we have these in other countries of the world.

So, I think that he has to communicate to them that we, under our new trade bill, and so on, that we are going to use access to the market, either ordinary or preferential, as a bargaining instrument for obtaining reduced investment trade restrictions in that part of the world.

Senator CRANSTON. Thank you very, very much.

Greg.

Mr. MIGNANO. Thank you.

Recognizing the emerging role of not only Japan, but other Asian nations, as players in the global political and economic scene, I would urge President Bush to convey to those leaders who are forces for change that we will help them by supplying all the—I believe the Japanese term is "gaiatsu,"—external pressure that they need to in order to shield themselves politically. I would also say that he should express to them, especially the youth in Asia who might see the United States, I hope erroneously, as something of an overly aggressive economic force—and I am thinking of those students who were protesting last week in Seoul because they don't want to open markets to the United States—that we stand as a moral authority. Something of the President's "kinder and gentler" notions should be conveyed while keeping that crowbar in the back pocket.

Senator CRANSTON. Thank you very, very much. Excuse us for conferring on that matter.

Senator Murkowski may have the opportunity to say the last word to President Bush, because he is going to leave the United States via Alaska. So, I was asking each member of the panel to suggest what advice they thought would be most useful to give President Bush as to what he could best do to advance our interests and the interests of the world when he goes on that trip. You will have greater opportunity than I to have his ear. So, while I don't want to intrude upon the privacy of your relationship to him, if you could suggest what you think would be the most useful thing he might accomplish on this trip, I think we would all be interested in your thoughts.

Senator MURKOWSKI. Well, thank you. Although, I don't think you can escape the possibility that you might be there with me to have the last word, as well. [Laughter.]

I happen to be oriented, personally, to the issue of doing business in the tremendous market place of the Pacific Rim, and the panelists today have indicated that we are not ready, that we don't know, that our educational system isn't structured in a competitive manner. But there are a few realities that come to my mind where we could say that the trade imbalance, to some extent—because if you look at ASEAN, Korea, Japan, Taiwan, they are all countries that must purchase raw materials from somebody, and energy from somebody. They don't, they are not blessed with those resources. They have a tremendous human resource.

We see the countries buying realistically less coal every year from the United States or from Canada, or from Australia, or from South Africa. They have to buy it from somebody. One can make a case that, why not buy it from your best customer? And, of course, the response to that is: Well, economics mandate, but sometime politics mandates, as well.

An example of that was the decision that was made by our administration and supported by our Congress to put our fleet over in the Persian Gulf. Not so that we could be necessarily the recipient of the oil, but the oil could continue to flow for the benefit of the free world. The Japanese were the primary recipients, about 58 percent of the crude oil from the Persian Gulf goes to Japan.

Now clearly, that commitment, which was a political decision, was made for the benefit of all our neighbors.

There is an old American adage that you take care of your best customers. Now I don't think that our neighbors over there are necessarily sensitive to that reality that we have been a little offended, to put it mildly. We see the trade deficit, while leveling to some extent, it is not satisfactory. We compete for a manufacturer's products, but I don't think we are giving enough attention to the reality that they could be buying gas in North America, in the United States, rather than Indonesia. The price might be a little different; but, by the same token, that kind of a relationship, in other words, access to U.S. markets unlimited, would be worth an awful lot to them. I think we have to do a better job of reminding them of that.

I think that is probably the message that I would encourage that the President tactfully communicates through our Secretary of State. Because, you know, while obviously we have to be competitive, it is a chicken-and-the-egg situation: If we have the volumes, why, the unit price goes down. We argue an awful lot about penetrating markets for apples and turkey wings, but those aren't big ticket items. But you start throwing some long-term energy contracts, you are talking about billions of dollars to offset the trade deficit. We experienced a little of that in my State because we are the only State in the Nation that has a favorable balance of trade with our friends over there. It is simply because of the resource capability we have, and we haven't even started from the standpoint of volume.

So, without going into any further generalizations, which I would like to do. I would like to talk a little bit about the Philippines, you know, and the questions that we have. Whether we should put additional commitments there at Clark and Subic; the issue of whether the Philippines can appropriately spend money, or whether they need something else. You know, the rent is going to go up this year now, and there can be a lot of controversy. We go over to ASEAN and suggest that they should do more; and they say flatly that they feel that their greatest threat is not external, but it is internal and that is where they are going to put their resources. And, if the United States leaves, it leaves, and there will be somebody else that will move in. It might be China, it might be Japan, it might be the Soviet Union. They are quite prepared for that eventuality.

So, it gives us, I think, a little broader perspective in which to, you know, the world is going to continue regardless of the extent of our presence over there in some manner and form and there is a big commitments and big decisions that we are going to have to make. The realization that the largest investor in the Philippines now is the Taiwanese, as they run out of cheap labor in their own country. These are really provoking things.

You touched on here Brussels, 1992. Here is the Pacific Rim countries and our trade problems and opportunities with them, and now we got Europe that we really haven't looked at. And the buying power of Europe and the marketing of moving that capital across the line, and what it is going to mean to the world. How competitive are we going to be? Are we going to be caught in the squeeze where we resort to protectionism or are we going to be able to compete in those cross-markets?

It is going to be a stimulating time, one for the stretch of the imagination; but I think we have to maintain a basic business principle. And that is one equity that we should simply demand the same access to foreign markets, for the most part—there are exceptions—as foreign capital enjoys in the United States. And one of the things that has always brought this to mind is the Konzai International Airport issue, which I have been working on for a long, long time, and the realization that we invite Japanese contractors into our public works area. They have done about 2 billion dollars' worth of private construction in the United States. That's great. But, as one of the gentlemen pointed out, the Japanese spend a lot more money in their own country for things that we could participate in. We are not going to build roads and build buildings over, but we could provide people movers. We could provide inflight kitchens; we could provide engineering, architectural design. They absolutely won't let us in these markets. And the Koreans are just as tough. And the question is leverage, and I think that leverage has to come down from the administration through the State Department. The State Department, for far too long, has been concerned with the diplomacy of the issue, and I think perhaps we have an opportunity to change that. I certainly hope so.

So, end of speech. Thank you.

Senator CRANSTON. Thank you for a very heartfelt statement of your thoughts on the matter. It is has been very, very constructive.

I want to thank all concerned. Mel, Leo, Frank, all the members of the panel, and all others of you who have been here for your presence and for your interest. I hope very much that we can follow through constructively on many of the very fine ideas that emerged out of our discussion. I like this format.

Thank you all very much.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]